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For private circulation only

envisioning
a better world



Annual Report 2005-2006

A better world begins with us.

The belief behind our active involvement in issues facing the world.

Freedom to generate profits is meaningless without a responsibility towards the world that helps you generate them. Godfrey Phillips India's passion for performance is driven by this belief and we strive to win only to contribute back more to society. Every success encourages us to succeed with more demanding challenges, generate more profits and to contribute more to society. Every success helps us make this world a better place.

With initiatives that help families become self-reliant and special programmes to help those with limited means secure a better life, Godfrey Phillips India strives everyday to help millions across the planet dream again.

Godfrey Phillips India believes that with a vision to make the world a better place and an unflinching commitment to bring alive that vision, we can be proud of the profits we generate for our shareholders.



Dear Shareholder,

I am happy to report that in the last year your company continued to scale great heights and achieve growth at a rate higher than the industry average. The hurdles that the Indian cigarette industry faces today in the shape of various regulations make this an achievement even more remarkable.

The fact remains that in spite of being the source of huge revenues for the Government, the cigarette industry has not been afforded a level playing field vis-à-vis other tobacco products. Restrictions with respect to advertising, sale and consumption of tobacco products in the form of the 'Cigarettes and other Tobacco Products Act' (COTPA), continue to pose a serious marketing challenge.

Even though cigarettes account for the lowest percentage of tobacco consumption in India, the UPA government has increased the excise duty by 5% over and above last year's increase of 10% - the repercussions of which are far reaching. The Government has completely overlooked the fact that as excise increases, it only shifts demand from cigarettes to other cheaper products, forcing the tobacco farmer to start producing cheaper forms of tobacco, thereby reducing the tobacco farmer's earnings. Merely raising the excise will not bring down tobacco consumption as the consumer shifts to other cheaper alternatives. Result being that neither the Government achieves its objective of controlling tobacco consumption, nor is it able to optimise revenue collection.

However, I take great pride in the fact that your company believes in looking beyond profits and creating a better world for its people and indeed a better planet for all of us to inhabit. I assure you that the various Corporate Social Responsibility (CSR) initiatives from Godfrey Phillips India shall continue to touch many lives and bring about a positive change in society.

R. A. Shah
Chairman

A better planet
is one that's more compassionate
and considerate. And we prefer to be the change
rather than just a plea for it.

As a leading cigarette manufacturer, we believe our responsibility does not end at just



reaching out to more customers; it extends to making

them responsible consumers.

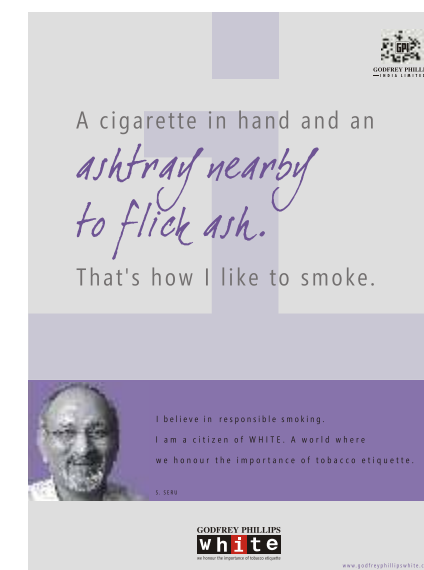
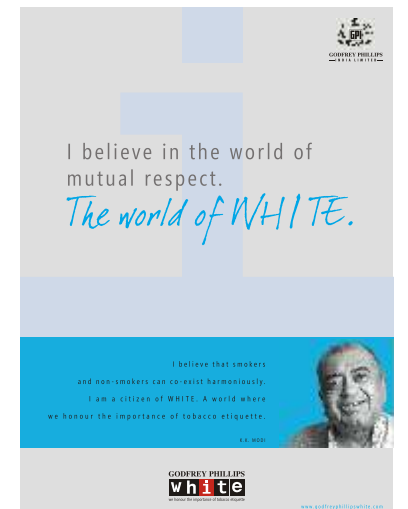
With this in mind, we introduced WHITE. Five letters that stand for our commitment to creating harmony between smokers and

non-smokers. Five letters that spell 'We Honor the Importance of Tobacco Etiquette.' Understanding the needs of non-smokers,

respecting their space and extending courtesies is the

focus of this programme. Not stopping there, the

programme also aims to help non-smokers empathise with smokers' needs.



GODFREY PHILLIPS
white
we honour the importance of tobacco etiquette



Instituted in 1990 by Godfrey Phillips India, the 'Red & White Bravery Awards' have come a long way. Re-christened 'Godfrey Phillips Bravery' in 2005, this Corporate Social Responsibility (CSR) initiative now spreads across 16 states in India and has taken the form of a national movement. Having acknowledged and rewarded more than a thousand acts of bravery and selfless courage, it has inspired millions to make bravery a way of life.

While the Awards shall continue to acknowledge and reward acts of Bravery, the ambit of Bravery is set to expand. Going beyond just larger than life acts such as saving lives, Godfrey Phillips Bravery will now also acknowledge those acts in daily life that look small outwardly but demand big courage to perform.

And now with Preity Zinta as our goodwill ambassador, we believe the values of Bravery will find expression in more lives than ever.



To Farmers' Aid



Despite being the world's third largest producer, tobacco farming in India has been performing way below par. Godfrey Phillips India has undertaken numerous initiatives to make the returns from tobacco cultivation higher for the

farmers. For instance, the Leaf Division has been cultivating model farms to impart technical know-how on good agricultural practices to tobacco farmers. These programmes have benefitted farmers both in terms of productivity and quality.

Highlights:

- Godfrey Phillips Andheri Plant has been providing consistent support in various forms to 'ASMITA' - A Social and Cultural Charitable Trust in Mumbai that runs Primary and Secondary Schools as well as a Rehabilitation Centre for the physically challenged.



- When heavy rainfalls in Mumbai submerged over a lakh kilogram of raw tobacco at the Andheri Plant, the damaged tobacco was removed within two days to prevent potential hazard to people staying in nearby areas. Financial aid to the tune of Rs 4.29 lakh was also extended to 37 flood affected employees of the Andheri Plant.
- The Environment Management Systems at the Andheri Plant were successfully upgraded to ISO 14001: 2004 in May 2006.
- The Guldhar Plant was accredited with Social Accountability: SA 8000:2001. Some of the 14 areas Godfrey Phillips India is sincerely committed to include - Child Labour, Discrimination, Health and Safety, Freedom of Association and Working Hours Regulation.

That **people** are an organisation's most valuable asset may be a discovery for some. At Godfrey Phillips India, this has been our belief. Always.

People remain our most valuable asset. 'Grow people, organisational growth will follow' has been our motto for long. We sincerely believe that enhanced organisational performance will always spring from individual inspiration and empowerment. Strengthening our people therefore, is for us, strengthening our identity.

Not long ago, every member of the Godfrey Phillips India team participated in defining the core values and the vision they had for the Company. What emerged hence, is a common belief and a common goal that is zealously pursued by everyone.

With the vision of a company where transparency and trust are paramount and accessibility is built into every level of functioning, we have initiated a number of programmes.



Creating future leaders

'Leadership Development Programme' - an initiative towards building a large group of leadership talent in the organisation that reaches right down to junior level managers and helps enhance the overall leadership capabilities of the organisation.

An effective 'Coaching Programme' develops the skills of managers towards guiding and facilitating their subordinate's work and helping them make the most of their potential.

Through dedicated 'Development Centres', we continuously assess work behavior of our front-line managers and help them develop their competencies.



360° Feedback System

The '360° Feedback System' is a specially designed, customised software tool that has been made available to managers across the organisation to facilitate and support behavioral feedback from their superiors, peers as well as sub-ordinates.

Mentoring

Our mentoring programme aims at smoother induction of new talent into the organisation. Each manager joining Godfrey Phillips India is assigned a mentor who provides support for the first three months to help the new member adapt, inculcate and practice the values that make Godfrey Phillips India the organisation it is.



Doing us proud

Mr. D.I. Shahani, General Manager - Works, Andheri Plant, was invited as 'Guest Speaker' for 'Ideas Arabia Conference - 2006' organised by Dubai Quality Group. He represented India in the capacity of President, Indian National Suggestion Schemes Association (INSSAN). He shared his experiences at Godfrey Phillips India on 'Launching and Sustaining Suggestion Scheme'.



The Andheri Plant won INSSAN AWARD for the 8th consecutive year for 'Excellence in Suggestion Scheme' for achieving highest levels of employee participation and excellence through suggestion scheme.

Mr. Arun Kumar, EVP - HR, was awarded the prestigious RASBIC (Recruiting & Staffing Best in Class) Award for recognition in fields of recruiting and staffing. The Award conferred by Bharati Vidyapeeth's Institute of Management Studies & Research, recognises and promotes best practices in workforce management and planning.



Mr. Jitendra D. Tawde, Manager - Quality Assurance and Mr. M. M. Brahme, Head - Environmental Management Systems of Andheri Plant helped ASMITA - an NGO, acquire ISO 9001. The certification and audit charges of RWTUV were sponsored by Godfrey Phillips India.

Six Sigma initiatives

In April 2005, Godfrey Phillips India identified 20 projects for its Six Sigma initiative. These projects ranged from customer acquisition, productivity improvement to reducing costs and spanned the entire company. 9 Black Belts and 11 Green Belts were trained to implement this initiative in the first wave of implementation. The result brought annualised savings of approximately Rs 3.5 crore. After the



successful completion of the first wave, Godfrey Phillips India is ready to implement the second wave with 35 projects under 35 trained personnel.



Profit is nothing till it profits the world.



Godfrey Phillips India prides in its people and believes that profits are a direct result of great people working towards a common objective in an environment that encourages them to excel. Godfrey Phillips India consistently shifts paradigms - be it achieving higher efficiencies in product manufacturing or creating cutting-edge offerings that become marketing successes. It's our people who we have to thank for this.

We also believe that to generate profits is meaningless without a responsibility towards the world that helps generate them. The passion for performance at Godfrey Phillips India is driven by this belief and we strive to win, only to be able to give back more to the society.

I gen: A winner is launched



Full Flavour

I gen: A stylish, trendy and upbeat brand created exclusively for the free-spirited has been launched recently by Godfrey Phillips India. Crafted from smooth Brazil Virginia tobacco, it is the only Indian brand that follows EU norms.

I gen is ready to shatter the stereotype of 'different brands for men and women'. Right from the unique vibrant packaging to the super smooth and extremely light flavour, the brand available in 'Regulars' and 'Milds' oozes a unisexual appeal. With a unique

35 mm -CTP filter from Austria, a hi-tech HFS that is printed in Singapore with an extra stiff board from Germany, I gen has all the ingredients to become the preferred choice for the ambitious, new age professionals who see the brand they smoke as an extension of their personality.



Milds

STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH.

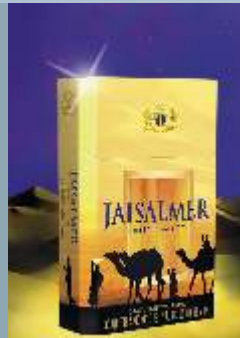


Four Square comes out tops again

Growing five times the industry average, our flagship brand crossed the Rs 550 crore mark this year, ruling the roost in Mumbai, Rajasthan, Goa, Himachal Pradesh and J&K. Adding to the jubilant spirit was the brand variant - 'Four Square Lights'. Launched this year with an innovative packaging it has been received exceptionally well in the market.

A more premium Jaisalmer

With a view to add premium imagery to Jaisalmer, the 'Bevel Edge' pack was introduced in January 2006.



A fresh lease of life for Red & White



Red & White franchise got an image upgrade with a new theme campaign, changes in stick design, cohesive retail identity programmes and launch of special edition packs.

Another salient initiative of the year was the launch of Red & White Milds.

The variant was launched in an attractive new pack with a pre-printed stick design and was progressively rolled out to all markets of

Red & White Flake. The brand showed high potential despite no

previous evidence of the success of mild cigarettes. Post launch tracks registered a significant jump in salience and image ratings for the franchise.



Cavanders continues to lead the pack

Continuing its streak as one of the most buoyant brands in the tobacco industry, Cavanders not only dominated its segment in almost all the markets it operates in, it successfully expanded the industry in these markets.

STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH.

Accolades and acclaim for North Pole

Grabbing mind-share in an extremely competitive market requires loads of innovation and imagination. With this in mind, we carried the 'Fresh 'n' Cool' theme of the brand onto the pack design, making it an effective means of communication in itself. Combined with an innovative packaging, this resulted in excellent trade and consumer response and also won the brand the coveted 'Golden Peacock Award' for innovative packaging.



Unstoppable Tipper

The oldest and most representative organisation in the field of quality selections worldwide, 'Monde Selection' recognised Tipper's relentless effort on delivering quality to consumers. Tipper was awarded with Silver Medal at the 'Monde Selection Brussels, World Selection of Quality 2006'. Tipper also outgrew the segment in terms of year-on-year growth.

A fabulous growth in cigars

Cigars registered a massive 40% growth in sales over last year. Having forayed into both machine and hand made cigars, and with innovative marketing initiatives such as the use of duty free shops to market them, they are poised to witness even greater growth in the coming months.



Tea City gains fresh ground

This year Tea City witnessed a 6% growth in the de-growing category of packaged tea with a sales volume of 3050 tonnes over last year's 2890 tonnes. Symphony became the largest selling brand in its category in Leh, while Super Cup witnessed a tremendous increase in demand with the launch of 1 kg and 500 gm packs. Apart from this, Tea City literally gained fresh ground with it being launched in Rajasthan, Andhra Pradesh and Madhya Pradesh.

The Super Cup Rs. 5 'zipper' pack became the first of its kind in its segment and is likely to be a huge success with its unique benefit of keeping tea fresh.



STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH.



Dear Shareholder,

It gives me great pleasure that in the last year your Company registered 11% growth from Rs 1295 crore last year to Rs 1431 crore this year. Your Company's tobacco business continues to grow higher than the Industry growth of 6.3%. A remarkable feat to achieve, against the backdrop of increased marketing costs and additional excise duty of 5% levied on top of last year's 10%. This achievement just goes to reiterate our belief in 'excelling through excellence'. The Board of Directors of the company have recommended an all time high dividend of Rs 22.5 per equity share of Rs 10 each for the year 2005-06.

At the beginning of 2005, we identified 20 areas where we could improve upon quality as well as reduce the cost of production. We implemented the first wave of a sharply defined Six Sigma Programme in these areas and trained 9 Black Belts and 11 Green Belts to lead the initiative. We not only achieved annualised savings of approximately Rs 3.5 crore but were also able to improve quality of our products.

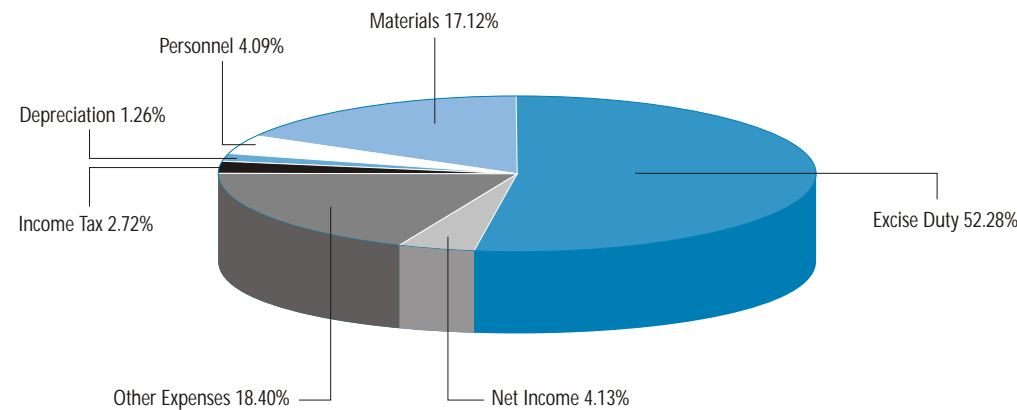
While we had decided to devote 2005-06 for building internal capabilities, the next year shall see 'Six Sigma' being implemented in virtually every aspect of the way Godfrey Phillips India operates and functions. As I write to you, second wave of the Six Sigma initiatives is being implemented with 12 Black Belts and 23 Green Belts being trained to lead 35 newly identified projects.

Your Company continues to look beyond profits and contributes substantially to the society from where it makes its profits. While Godfrey Phillips Bravery, a 16 year old initiative was given the shape of a national movement last year, this year I am happy to bring on board Ms Preity Zinta as the Godfrey Phillips Bravery Ambassador. Ms Preity Zinta will help us take the message of bravery and selfless courage to the masses. Aiming to promote responsible smoking behaviour, we launched another social initiative - WHITE (acronym for We Honour the Importance of Tobacco Etiquette); the Programme lays down a voluntary code for consumers of tobacco products and shall seek to promote a harmonious co-existence between those who consume tobacco and those who do not.

I am sure that Godfrey Phillips India shall continue to succeed even in the regulatory odds and continue to scale greater growth year after year, just as it shall continue to look beyond profits to bring about a positive change for this planet and its people.

K. K. Modi
President

Revenue Distribution



Financial Highlights

Rs. in lacs

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97
CAPITAL EMPLOYED										
Net Fixed Assets	12984	12920	8732	7413	7037	6987	6384	5155	2695	2342
Investments	21100	19916	14473	15636	12873	8080	7722	3968	3647	2781
Working Capital	9809	4513	6575	5429	8510	12041	8619	13069	10449	8985
Deferred Tax Assets (net)	—	1576	1239	797	—	—	—	—	—	—
Total	43893	38925	31019	29275	28420	27108	22725	22192	16791	14108
FINANCED BY										
Shareholders' Funds	36046	32701	28950	25966	24170	21597	18775	16239	13021	10280
Borrowings	7439	6224	2069	3309	4029	5511	3950	5953	3770	3828
Deferred Tax Liabilities (net)	408	—	—	—	221	—	—	—	—	—
Total	43893	38925	31019	29275	28420	27108	22725	22192	16791	14108
OPERATING PERFORMANCE										
Gross Revenue	145712	132538	120219	109639	96002	100439	109408	106249	102355	88568
Excise Duty	76176	61021	55769	52085	47049	44375	57193	55639	55996	47951
Depreciation	1837	1655	995	913	811	769	551	447	211	204
Profit Before Taxation	9969	9995	7649	5690	7184	7237	6386	6808	5935	4500
Profit After Taxation	6013	6360	5218	3791	4780	4656	4210	4603	3885	2276
Dividend	2340	2288	1976	1768	1924	1664	1508	1248	1040	728
Corporate Dividend Tax	328	321	258	227	—	170	166	137	104	73
Retained Earnings	3345	3751	2984	1796	2856	2822	2536	3218	2741	1475
INVESTORS' DATA										
Earning Per Equity Share (Rs.)	57.82	61.16	50.18	36.45	45.96	44.77	40.48	44.27	37.36	21.89
Dividend Per Equity Share (Rs.)	22.50	22.00	19.00	17.00	18.50	16.00	14.50	12.00	10.00	7.00
Book Value Per Equity Share (Rs.)@	344.37	312.20	276.12	247.43	230.15	205.42	178.27	153.89	122.94	96.58
Number of Shareholders	11261	11719	12539	13068	13198	13797	14004	15557	16994	17977

@ Excluding Revaluation Reserve

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors are proud to present to you the Annual Report and Accounts of your Company for the year ended March 31, 2006.

That 2005-06 is the fourth consecutive year of healthy growth should not go unnoticed to you. Before we delve into the analysis of a robust Indian economy, the daunting task of delivering performance in an industry not just restricted by compulsory licensing and discriminatory taxation but also regulations in conducting day-to-day business activities, we would like to bring to your notice the purposeful meaning of success to your company.

It is not uncommon for successful companies to realize the need to claim to be responsible companies. However, whilst being in a restricted category, social responsibility is as integral to success as growth and profits.

Godfrey Phillips India Limited and its entire team is committed to conduct its business in a responsible manner; for example we provide information to our trade partners that they should not sell to people who are below 18 years of age, trade information and boards are provided and is ensured that these are kept at prominent places to name a few.

Other than seeing profits as a reward to shareholders and employees we also see how we can be instrumental in benefiting the society and environment we operate in. Uncommon and unique initiatives like Godfrey Phillips WHITE a responsible smokers programme and Godfrey Phillips Bravery- an initiative that promotes selfless courage and bravery are some of the major opportunities for us to put our belief into practice.

GENERAL ECONOMIC ENVIRONMENT

India is pacing towards realizing its role as the third largest economy in the world by 2016. By 2025 India will be about 60% of the US economy. The transformation of the world economy into a tri-polar economy will be complete by 2035. These projections along with a consistent delivery on GDP growth rate are fuelling imagination of the second largest population group on earth.

Indian economy has attained robustness. National income statistics released by the Central Statistical Organisation for the year 2005-06 revealed the third consecutive year of good performance. GDP grew by 8.4%, backed by strong growth in agriculture of 3.9%, industrial growth of 9% and a 10% growth in the services sector. For the last three years, annual growth in GDP averaged around 8%.

The economic growth, though well distributed, can be largely attributed to the growth in the services sector. The share of services sector to GDP has grown from 49% in 2000 to 54% in 2006. The share of agriculture has receded from 28% in 2000 to 22% in 2006. The manufacturing sector has maintained its share with just a 0.8 percentage point increase in the last seven years.

TOBACCO/CIGARETTE INDUSTRY IN INDIA

Cigarette industry in India and its potential

Taxation

The Indian Cigarette industry is heavily taxed and operates under draconian regulatory conditions. Cigarettes which account for only 14% of the total tobacco consumption, contribute over 90% (approx. Rs. 8000 crore) of the total excise revenue from tobacco. This is a result of inequitable taxation on Cigarettes which is 34 times higher than other tobacco products. The current regulatory and taxation framework on cigarettes, does not take into account the uniqueness of Indian tobacco industry which is extremely fragmented. In India, 86% tobacco consumption comprises of bidi and chewing tobacco, with over 60% consumers having dual-usage patterns i.e. they consume cigarettes and other forms of tobacco as well. Even a slight increase in price of cigarettes shifts the demand to cheaper, and revenue inefficient forms of tobacco like bidi, cheaper cigarette (that evade excise duty) and chewing tobacco.

The Cigarette industry has once again been singled out and levied with an excise increase of 5%. This increase comes on the back of a 10% increase in the cigarette excise in the last Budget. In addition, some states levy entry tax, octroi and other local levies. All these put an additional burden to already heavily taxed Cigarette industry, which has been struggling in highly challenging regulatory environment. Also, exclusion of beedis and chewing tobacco from this levy is inequitous and discriminatory; this not only defeats the social objective of tobacco control but also jeopardise revenue collection, farmers' earnings and export collection.

Marketing Regulations

The Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act 2003 (COTPA), read with the notifications issued thereunder imposed advertising ban on all Tobacco products, prohibition on sale to minors and in the vicinity of educational institutions, prohibits smoking in public places.

As a responsible corporate citizen, your company ensures that its business is conducted in compliance with the provisions of COTPA.

Creating earning opportunities for farmers

Align Tobacco production pattern to meet International demand

India is the world's third largest

producer of tobacco, but has a mere 3% share of the US\$ 5.2 billion global tobacco leaf export trade. In fact, tobacco exports account for only 4.5% of the total agri exports. Globally, cigarettes constitute nearly 90% of total tobacco consumption. Therefore, the export demand primarily comprises of flue-cured

Virginia (FCV) of cigarette tobaccos. In India, traditional products such as bidis and chewing tobaccos enjoy a lion's share of 86 % of the total tobacco consumptions. Consequently, the cultivation pattern is skewed and not geared to cater to international demand.

FCV tobacco yields much higher returns to the farmers than any other crop grown in the region. Lakhs of farmers and farm workers have been reaping benefits from FCV tobacco contrary to those who have attempted alternate crops like cotton, maize etc and have miserably failed. A growth in FCV tobacco exports would incentivise farmers to grow better quality/varieties of tobacco. However, India's exports are being impeded by the lack of a strong domestic base, as two thirds of tobacco production continues to comprise of varieties that have virtually no export potential. In this context, it would be appropriate to highlight Brazil's phenomenal export performance. In the early '70s, Brazil's leaf exports were at par with India. However, over the next three decades, their exports have leapfrogged and are now six times that of India.

"In spite of India having a comparative advantage over leading tobacco producing countries in terms of low cost of production, farm price and conversion cost, it has not emerged as a leading exporter."

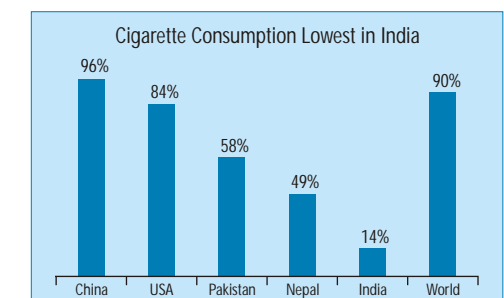
"...it is a robust and largely irrigation-independent crop, provides substantial employment, has significant export potential and, most importantly, is a source of ever-growing tax revenues."

-Ministry of Health & Family Welfare,
Report on Tobacco Control in India, 2004

"FCV tobacco cultivation has brought about revolutionary changes in the socio-economic status of the people in the tobacco-growing areas of Andhra Pradesh."

- Central Tobacco Research Institute

Widening the tax base



Cigarettes contribute over Rs. 8000 crore in excise, which accounts for more than 85% of the total excise revenue generated by tobacco products. A comparison in the global per capita consumption scenario puts India as second lowest. These figures create a misleading picture because even as cigarette consumption has declined from 23% in 1971 - 72 to 14%, total tobacco consumption has gone up from 406 million kgs in 1981 - 82 to 500 million kgs in 2004 - 05. This decline has undoubtedly resulted in a potential revenue loss to the exchequer.

This can be attributed to the inequity in the Government's tobacco tax policies. Cigarette consumption in India is extremely price elastic, unlike tobacco consumption. Any increase in prices / taxes leads to a migration towards non-cigarette tobaccos. As

DIRECTORS' REPORT

a result, contrary to the Government's objective of tobacco control, tobacco consumption has been increasing. Thus, the high rates of taxes on cigarettes have neither translated in optimizing tax revenues nor been able to restrain overall consumption.

"India has extensive experience with the difficulties associated with high rates and pervasive tax avoidance ...Expanding the tax base, rather than increasing rates, is hence the preferred strategy".

Dr. V. Kelkar, Report of the Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003

Keeping in mind India's unique and fragmented pattern of tobacco consumption, this can be achieved through widening the tax base by bringing a much larger proportion of the unorganised sector into the tax net and providing tax stability on cigarettes. Such a policy will encourage transition from traditional forms of tobacco consumption to more contemporary forms, which use superior quality (FCV) tobaccos. This will also maximise the economic value per unit of consumption and benefit the Government in the form of increased excise revenues. Enhancing the role of the Tobacco Board to cover all types of tobacco leaf could be a step in this direction.

"Beedis... deliver more toxic products to the smoker than other smoked tobacco products. Thus, the burden of tobacco-related diseases is higher in this group. Increased taxes on cigarettes since the 1970's resulted in increased consumption of beedis..."

Report on Tobacco Control in India, commissioned by the Ministry of Health and Family Welfare

Strict monitoring of applicability of ID&R Act, 1951 to Small Units

Cigarettes are amongst six industries that are under compulsory licensing. However, under the ID&R Act, 1951, units employing less than 50 workers with the aid of power, or 100 workers without the aid of power can be set up without obtaining a compulsory license, if permitted by the State authorities.

Exploiting a lacuna in the Act by showing less than 50 persons in direct employment, many small units are manufacturing cigarettes by obtaining State permission only. This contradicts Government policy of strict control/regulation on tobacco, creates unlicensed additional capacity where 50% of existing industry licensed capacity is unutilized. This also leads to suspected evasion of excise duty.

Tax Stability

The Government's strategy of providing stability in excise tax rate on cigarettes has proved to be extremely beneficial for the FCV tobacco farmers. The farm prices were extremely attractive, this year the average farm price is expected to rise further, the average price for the 2005-2006 Karnataka crop was Rs. 48.06, while the ongoing auctions in Andhra Pradesh have yielded an average of Rs. 46.91 per kg. The average farm prices for FCV Tobacco in Andhra Pradesh and Karnataka (Rs./Kg.) were Rs. 36.75 and Rs. 40.34 in the year 2003-04 and 2004-05 respectively.

The benefits of these measures will ultimately accrue to the tobacco farming community, which will be entirely in consonance with the Government's CMP: "...to enhance the welfare and well-being of farmers, farm labour and workers...and assure a secure future for their families in every respect."

SEGMENTWISE PERFORMANCE IN 2005-06

Cigarettes

During the year under report almost all the major cigarette brands of the Company performed better compared to that in the previous year. The market share of the Company grew to 12.1% compared to 11.8% last year. New line extensions under the names FSK Lights, Red & White Milds and Tipper Premium were launched. Also a new brand I gen was launched in the Premium segment. In spite of the substantial increase of 10% in excise duty in 2005 Budget no major changes were effected by the Company on its cigarette prices.

During the year under review the Company achieved a higher cigarette sales volume of 12522 million cigarettes as against 11496 million cigarettes in the previous year giving it an increased sales volume by 8.9%. In terms of value the cigarette sales was higher at about Rs. 1324 crore as against Rs. 1180 crore in the previous year registering an increase of 12.2%.

During the first quarter of the current financial year the domestic cigarette sales volume were higher at 3270 million cigarettes as against 3117 million cigarettes sold

during the corresponding quarter last year registering an increase of 5%. In value terms the cigarette sales during the first quarter were higher by about 9.6% at Rs. 360.54 crore as against Rs. 328.96 crore in the corresponding quarter last year.

Tea

During the year under report the domestic tea sales were higher at 3050 tonnes valued at Rs. 39 crore as against 2890 tonnes valued at Rs. 38 crore thereby registering an increase of 6% in terms of quantity and 3% in terms of value.

With the process of integration of tea distribution with cigarettes distribution, your Directors are confident of higher turnover of tea in the years ahead.

During the first quarter of the current year the Company has been able to achieve sales of tea in the domestic market of Rs. 9.70 crore as compared to Rs. 7.96 crore during the corresponding quarter last year.

Exports

During the year, the aggregate value of exports including tobacco, cut tobacco, cigarettes and tea were lower at Rs. 61.39 crore as against Rs. 73.26 crore in the previous year as exports of cigarettes and unmanufactured tobacco were lower though exports of tea were significantly higher. All efforts are being made to obtain substantial increase in exports of unmanufactured tobacco through establishing new contacts, appointment of agents for participation in tenders etc. and it is hoped that these efforts and initiatives shall bring in positive results in future.

Cigar

During the year under report the Company was able to sell a higher quantity of cigars with a sale of about 14 lac pieces compared to 10 lac pieces in the previous year registering an increase of about 40%. In terms of value also the sales income was higher at Rs. 2.29 crore as against Rs. 1.77 crore in the previous year achieving a growth of about 29%.

The success story continues, and the progress towards realizing the vision - "To make Godfrey Phillips India the destination for Cigars in India"

Consumers have shown greater acceptance of the Cigars marketed by the Company.

In the Machine made segment, Phillies Blunt, Phillies Chocolate, Phillies Strawberry, Phillies Cognac, Phillies Sweet Little, Phillies Cheroot, Hav-A-Tampa Vanilla, Black Gold and Hav-A-Tampa Natural continue to grow.

In the Hand rolled segment of cigars, Don Diego, Santa Damiana and Flor De Copan registered a remarkable growth thereby achieving 25% share of the segment volume.

Park Plaza (Delhi NCR) opened the first Cigar Shop, carrying all brands of Altadis USA, both the hand rolled and machine made cigars. The consumers appreciated the initiative, and are frequent visitors to the shop.

Your Company made further inroads, and its innovative humidors have added lot of value to the prestigious outlets.

Having succeeded in the domestic market, the Company also made its presence felt in Duty Free Shop, and the response is very encouraging.

Treasury Operations

The Company has been following a conservative approach consistently in deploying its long term surplus liquidity and accordingly investing the same in debt oriented schemes of different reputed mutual funds. The underlying principle therefore is derived from the twin objective namely, capital preservation with a market driven competitive return. In past, such investment portfolio gave the Company handsome returns when the interest rates were declining. However, with interest rates hardening for last about two years the return on these investments has suffered a set back. Your directors are currently busy reviewing the situation and appropriate steps will be taken for reshuffling the portfolio as may be deemed prudent. Meanwhile, with a view to secure higher returns a substantial portion of additional surplus has been invested in Fixed Maturity Plans (Debt Schemes) and recently a smaller portion in equity schemes besides a few cases of switchovers therein.

In addition the temporary surplus funds are also invested in liquid/short term schemes of mutual funds so as to fruitfully deploy the same. Such investments are used for making monthly payments of excise duty in due course.

DIRECTORS' REPORT

FINANCIAL PERFORMANCE

FINANCIAL RESULTS	2005-2006	2004-2005
	Rs. in lac	Rs. in lac
Gross Profit	10942.26	11650.26
Less : Depreciation	1837.20	1655.28
Profit before taxation and exceptional items	9105.06	9994.98
Add: Exceptional items (Refer Note 14 to accounts)	864.30	—
Profit before taxation	9969.36	9994.98
Less : Provision for Taxation - current	1307.35	3973.00
- deferred tax	1984.30	(337.87)
- fringe benefit tax	664.75	—
Profit after tax for the year	6012.96	6359.85
Profit Brought Forward	21064.27	18713.00
	27077.23	25072.85
Appropriations		
Proposed Dividend	2339.72	2287.73
Corporate Dividend Tax	328.15	320.85
Transfer to General Reserve	1400.00	1400.00
Surplus carried to Balance Sheet	23009.36	21064.27
	27077.23	25072.85

The overall sales turnover comprising of cigarettes, tobacco, cigar and tea was also higher at Rs. 1432 crore as against Rs. 1296 crore in the previous year, registering an increase of more than 10%. After providing for the taxation, the net profit of the Company was at Rs. 60.13 crore as against Rs. 63.60 crore in the previous year.

DIVIDEND

Keeping in view the Company's performance for the year under report the Board of Directors of the Company are pleased to recommend a higher dividend of Rs. 22.50 per share as against Rs. 22 per share paid for the previous year.

ASSAM DUES AND LUXURY TAXES

The Supreme Court of India upheld the retrospective levy of excise duty that adversely affected certain cigarette manufacturers who had set up manufacturing facilities in Assam and supplied cigarettes to your company. Your company had to conclude a settlement with the Assam cigarette supplier companies agreeing to revise the price in respect of cigarettes supplied by the two Assam supplier companies. This resulted in an outflow to the tune of Rs. 34 crore. Incidentally, the Supreme Court of India scrapped luxury taxes on cigarettes levied by different States and the reversal of provision for luxury tax payment held by the Company in its books brought back an income of Rs. 43 crore during the year under report.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has an adequate system of internal control commensurate with the size of the Company and the nature of its business which ensures that transactions are recorded, authorised and reported correctly apart from safeguarding its assets against loss from wastage, unauthorised use and disposition.

The internal control system is supplemented by well documented policies, guidelines and procedures, an extensive programme of internal audit by a firm of chartered accountants and management reviews.

HUMAN RESOURCE DEVELOPMENT

Material developments in human resources/industrial relations front through variety of initiatives are summarized as hereunder :

(i) The HR department of the Company have designed, developed and launched a new software called 360° Feedback System. This software is a customized, sophisticated tool which has been made available to a large group of managers across the organization to facilitate and support behavioural feedback of our managers on an ongoing basis from their superiors, peers as well as sub-ordinates.

(ii) Mentoring program is an initiative towards welcoming and inducting new talent

into the organization. Through this program every manager joining the organization is assigned a mentor who provides an ongoing support for the first three months to help the new joinee adapt to the Company culture and its values.

(iii) Coaching program is an effort towards developing the skills of managers towards operating as guides and facilitators so that they can bring out the full potential of their reportees.

(iv) Development Centre is an initiative taken with a view to continuously assess and develop the skills and behaviour of front line managers and aimed at building the competencies of the target group to take on higher managerial roles in the ensuing years.

(v) The leadership development program is an initiative towards building a large group of leadership talent in the organization not only at the senior levels but also at the middle and junior levels so as to enhance the overall leadership capabilities of the managers in the organization.

There were 1386 employees employed with the Company as on June 30, 2006 (including 439 employed in International Tobacco Company Limited, a wholly owned subsidiary of the Company).

CORPORATE DEVELOPMENT AND INFORMATION TECHNOLOGY

In the last year, the Company has made significant improvements in the infrastructure and administration of IT facilities. These have resulted in increased productivity of staff. New systems in the areas of sales and sales analysis, using state-of-the-art Business Intelligence tools have been deployed. Facilities to improve communication and interaction with distributors using sms has resulted in better servicing and reduced query handling time at the Company's sales offices. The first 3rd party information security audit was conducted in line with ISO17799. This will be made an annual affair, to ensure the security and reliability of the IT services.

In the financial year 2006-07, the Company proposes to upgrade its basic financial and inventory management using ERP system to provide real-time information and improved management control. Further extensions in sales to improve forecasting and planning are underway.

The Department of Corporate Development has been working on projects to accelerate the rate of growth of the Company. The department continues to work on implementing structured processes for strategic planning and monitoring for the Company.

CONSERVATION OF ENERGY

During the year under report, the measures initiated/implemented by the Company for conservation of energy included the following main items :

1. Six Sigma Black Belt project was completed on maximum demand (MD) reduction of 133 KVA per month thereby obtaining savings of Rs. 6 lac/annum.
2. Automation in Utility department for Air Conditioning Plant Control through in house development of SCADA (Supervisory Control And Data Acquisition) system Savings of approx. 4500 units / annum (Approx. Rs. 0.20 lac/ annum).
3. New Tobacco Dryer was designed for reduction in steam consumption with lower furnace oil consumption. Annual saving in furnace oil approx. 10800 ltrs/annum which amounts to Rs. 2.16 lac/annum.
4. In Primary department electrical condensate pumps have been replaced with flash steam operated mechanical pumps which resulted in savings of electrical energy @ 9 units/day by considering one shift operation.

Savings of approx. 2700 units/annum (Approx. Rs. 0.12 lac/annum).

Impact :

These measures resulted in saving in power consumption of about Rs. 8.48 lac during the year.

TECHNOLOGICAL ABSORPTION, ADOPTION AND INNOVATION

The measures initiated/implemented during the year under report are:

Research & Development

New Development

1. Development of new brands conforming to EU norms.
2. Development of new brands in Lights and Mild segment for domestic market.
3. Development of several brands both Virginia as well as US Blends type for International Division.

DIRECTORS' REPORT

4. Readiness for reduction of tar and nicotine delivery levels for all domestic brands.
5. National Accreditation Board for Testing and Calibration Laboratories (NABL) accreditation for the analytical lab with ISO 17025 Certification.
6. Design, erection and commissioning of one of the smallest pilot plants in the world (Line Capacity @ 60 kg / hr).

Benefits derived as a result of this Development

1. Increased variants in domestic brands.
2. A bank of blends made ready to launch brands in International market.
3. Pilot plant has helped in reducing cycle time and cost of Product Development.

Future Plan of Action

1. Continuing work on tar and nicotine delivery reduction of existing brands.
2. Intensifying work on new varieties of cigarettes with various benefits.
3. Upgradation of analytical facility to meet future challenges.

Technology Absorption Adaptation & Innovation

Initiatives undertaken in this area are given below:

1. Indigenous development of humidity cabinet for testing the life cycle of cigarettes.
2. Implemented auto weight recording system with statistical process control feature in Secondary department.
3. Installation and commissioning of pilot maker for R&D sample manufacturing.

Benefit derived as a result of this Development

The first two will help in delivering better and consistent quality cigarettes to the customers and the pilot maker will help in reducing cycle time of Product Development.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The earnings in foreign exchange during the year under report by way of exports and other income amounted to Rs. 61.87 crore (previous year Rs. 73.87 crore) as against the foreign exchange outgo on imports, dividends and other expenditure aggregating to Rs. 35.23 crore (previous year Rs. 60.56 crore).

FIXED DEPOSITS

At the end of the financial year, the balance on account of Fixed Deposits accepted from the Public and Members stood at Rs. 1,86,000 which included 16 deposits totaling Rs. 1,86,000 not claimed on due dates. Out of these, the amount of a deposit of Rs. 6,000 was transferred to the credit of Investor Education and Protection Fund leaving a balance of Rs. 1,80,000 comprising of 15 deposits awaiting claims from the concerned depositors.

Presently the Company is neither accepting fresh deposits nor renewing the existing ones as it is no longer economical for the Company to raise moneys through this mode of finance.

DIRECTORS

Mr. S.V. Shanbhag, Mr. Lalit Bhasin and Mr. C.M. Maniar, Directors, will retire by rotation at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed :

- (i) that in the preparation of the Annual Accounts for the financial year ended March 31, 2006, the applicable Accounting Standards had been followed;
- (ii) that the directors had selected such Accounting Policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the directors had prepared the accounts for the financial year ended March 31, 2006 on a 'going concern' basis.

CORPORATE GOVERNANCE

The Company is committed to maximise the value of its stakeholders by adopting the principles of good Corporate Governance in line with the provisions of law and in particular those stipulated in the Listing Agreement with the stock exchanges. It encourages wide participation from all stakeholders. Its objective and that of its management and employees is to manufacture and market the Company's products in a way so as to create value that can be sustained over the long term for consumers, shareholders, employees, business partners and the national economy in general. Constant innovation in its operations across all the locations of the Company is an ongoing effort so as to obtain higher efficiencies.

A certificate from the auditors of your company regarding compliance of the conditions of Corporate Governance as stipulated in clause 49 of the Listing Agreement with stock exchanges, is enclosed.

A certificate from Mr. K.K. Modi, Managing Director as the Chief Executive Officer (CEO) and Mr. R.N. Agarwal, Executive Vice President - Finance as the Chief Financial Officer in relation to the financial statements for the year ended March 31, 2006 along with a declaration of compliance with the code of business conduct of the Company by the Directors and the members of the senior management team of the Company during that year from the CEO were submitted to the Board in compliance with the requirement under clause 49 of the Listing Agreement with the stock exchanges and the same were taken note of.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 - Consolidated Financial Statements, Group Accounts form part of this Report & Accounts. These Group accounts have been prepared on the basis of audited financial statements received from the Subsidiary Companies and an Associate Company, as approved by their respective Boards.

AUDITORS

A.F. Ferguson & Co., Chartered Accountants, the retiring Auditors, have offered themselves for re-appointment as Auditors for the Head Office as well as branch offices at Ahmedabad, Mumbai, Kolkata, Ghaziabad, Guntur, Hyderabad, New Delhi and Chandigarh.

SUBSIDIARY COMPANIES

The Reports and Accounts of the subsidiary companies are annexed to this Report along with the statement pursuant to Section 212 of the Companies Act, 1956. However, in the context of mandatory requirement to present consolidated accounts, which provides members with a consolidated position of the Company including subsidiaries, at the first instance, members are being provided with the Report and Accounts of the Company treating these as abridged accounts as contemplated by Section 219 of the Companies Act, 1956. Members desirous of receiving the full Report and Accounts including the Report and Accounts of the subsidiaries will be provided the same on receipt of a written request from them. This will help save considerable cost in connection with printing and mailing of the Report and Accounts.

GENERAL

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary.

EMPLOYEES

The relations with the employees of the Company continue to be cordial and the Directors wish to record their appreciation of their dedicated services at all levels of operations in the Company.

CONCLUSION

Your Directors look forward to the future with confidence and optimism.

New Delhi
Dated : July 29, 2006

R.A. SHAH
CHAIRMAN

BOARD OF DIRECTORS

- R.A. Shah - Chairman
- K.K. Modi - President
- L.K. Modi - Executive Director
- Samir Kumar Modi - Executive Director
- Lalit Bhasin
- Anup N. Kothari
- C.M. Maniar
- O.P. Vaish
- S.V. Shanbhag - Whole-time Director

COMPANY SECRETARY

R. Joshi

AUDITORS

A.F. Ferguson & Co.

INTERNAL AUDITORS

Lodha & Co.

SOLICITORS

Crawford Bayley & Co.

BANKERS

- State Bank of India
- Bank of Baroda
- Bank of India
- Citibank N.A.
- State Bank of Hyderabad
- State Bank of Travancore
- The Hongkong and Shanghai Banking Corporation
- Union Bank of India

REGISTRARS AND TRANSFER AGENT

Sharepro Services (India) Pvt. Ltd.

Satam Estate, 3rd Floor

(Above Bank of Baroda)

Cardinal Gracious Road,

Chakala, Andheri (E)

Mumbai 400099.

CORPORATE OFFICE

Four Square House

49, Community Centre, Friends Colony

New Delhi 110025.

OTHER OFFICES

Ahmedabad, Chandigarh, Ghaziabad, Hyderabad, Kolkata,

Mumbai, New Delhi.

LEAF DIVISION

Guntur (Andhra Pradesh)

REGISTERED OFFICE

Chakala, Andheri (E), Mumbai 400099

Report on Corporate Governance for the year ended March 31, 2006

The Directors present the Company's Report on Corporate Governance

1. THE COMPANY'S GOVERNANCE PHILOSOPHY

GPI's Corporate Governance initiatives are devised for achieving basic objective of wealth creation for the benefit of all its stakeholders namely the shareholders, employees, business associates and the society at large. The Company believes in giving its executives ample freedom to operate and secure the Company's target by putting in best of their efforts.

The Board of Directors is primarily responsible for protecting and enhancing shareholders' values besides fulfilling the Company's obligations towards other stakeholders. The role of the Board of Directors is to provide strategic superintendence over the Company's management. The day to day management of the Company is vested in the managerial personnel and sufficient authority is delegated at different operating levels. Delegation of authority in the operating people helps generation of creativity and innovation. This also helps in harnessing potential of employees to the best advantage of the Company.

2. BOARD OF DIRECTORS

i) Composition

The Board of Directors of the Company consists of executive and non-executive directors and more than half of the Board comprises of non-executive directors. The non-executive directors are independent professionals drawn from amongst persons with experience in business /law/finance. At present the total strength of the Board of Directors is nine out of which five are non-executive Directors. The Chairman of the Board is a non-executive director and the minimum requirement of one-third of the Board consisting of independent directors is duly complied with. The non-executive directors of the Company have already submitted their declarations affirming their status as independent directors as on 31st March, 2006.

ii) Attendance at the Board Meetings and the last Annual General Meeting, directorships and memberships/chairmanships of Board Committees of other Companies

Director	Executive/ Non-Executive Independent	No. of Board Meetings attended	Attendance at last AGM	Membership/ chairmanship of Board of other Companies* as at March 31, 2006	Membership/ chairmanship of other Board Committees# as at March 31, 2006
Mr. R.A. Shah	Non-Executive & Independent	7	Yes	13 (includes 1 as Chairman and 1 as Vice- chairman)	8 (includes 4 as Chairman)
Mr. K.K. Modi	Executive	7	Yes	12	3 (includes 1 as Chairman)
Mr. S.V. Shanbhag	Executive	5	Yes	4	None
Mr. Lalit Bhasin	Non-Executive & Independent	6	Yes	9	5 (includes 1 as Chairman)
Mr. Anup N. Kothari	Non-Executive & Independent	6	Yes	2	None
Mr. Lalit Kumar Modi	Executive	2	Yes	9	1 (as Chairman)
Mr. C.M. Maniar	Non-Executive & Independent	3	Yes	10	8 (includes 1 as Chairman)
Mr. O.P. Vaish	Non-Executive & Independent	6	Yes	5	1
Mr. Samir Kumar Modi	Executive	5	Yes	9	1

* Excludes directorships in private limited companies, foreign companies, alternate directorships and also memberships of Managing Committees of various chambers/bodies.

Represents memberships/chairmanships of Audit Committee and Shareholders/Investors Grievances Committee (excluding private companies).

iii) Board Meetings held during the year

During the year 2005-06, seven Board Meetings were held on the following dates:

April 10, 2005, June 30, 2005, July 31, 2005, September 15, 2005, September 30, 2005, October 30, 2005 and January 29, 2006.

In addition to the regular business items, other information as applicable pursuant to the requirements under the Listing Agreement with the Stock Exchanges were placed before the Board.

iv) The details of pecuniary relationship or transactions of the non-executive directors vis-a-vis the Company are given below:

Name of the director	Amount involved (Rs. in lacs)	Nature of transaction
1. Mr. R.A. Shah & Mr. C.M. Maniar (Senior Partners of Crawford Bayley & Co.)	26.31	Payment for professional services
2. Mr. Lalit Bhasin (Proprietor of Bhasin & Co.)	2.68	Payment for professional services
3. Mr. O.P. Vaish (Relatives of Mr. Vaish are partners in Vaish Associates)	14.04	Payment for professional services

v) Brief resume, experience and other directorships/board committee memberships

As per the Articles of Association of the Company, one-third of the total strength of the Board (i.e. three directors at present namely Mr. S.V. Shanbhag, Mr. Lalit Bhasin & Mr. C.M. Maniar) shall retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible shall be re-appointed subject to shareholders' approval.

Name of the Director	Mr. S.V. Shanbhag
Qualifications	M.Com, LL.B., ACS
Experience	<ul style="list-style-type: none">– Worked for 2 years in M/s. A.F. Ferguson & Co., Chartered Accountants.– Joined the Company in 1949 and has considerable experience in the field of Finance, Accounts, Legal & Secretarial matters.– Appointed as Company Secretary in the year 1963.– Since 1983 he has been working as Wholetime Director.
Names of other companies in which he holds directorships of the Board and membership/ chairmanship of committees of the Board*	<ol style="list-style-type: none">1. Kamanwala Industries Ltd.2. Chase Investments Ltd.3. Manhattan Credits & Finance Ltd.4. City Leasing and Finance Co. Ltd.
Name of the Director	Mr. Lalit Bhasin
Qualifications	
Experience	<ul style="list-style-type: none">– He is a distinguished lawyer with four decades of law practice– Heads the law firm of Bhasin & Co. having its offices at Delhi & Mumbai.– Holds several important posts as General Secretary of Bar Association of India, President of Indian Society for Afro-Asian Studies, Citizen's Drive and Society of Indian Law Firms and Honorary Life Member and Council Member of International Bar Association.– He is a former Chairman of Bar Council of India.– Has received several awards including the Indira Gandhi National Unity Award, Award for excellence in Professionalism by Institute of Marketing Management, Indira Gandhi Priyadarshini Award, Award of distinction by International Bar Association, National Award for excellence by All India Lawyers Forum for Civil Liberties and Award of Honour from the Prime Minister of India for services to the Legal Profession and Commitment to the Rule of Law in December 2001.– Has authored several books on diverse subjects.– Is a trustee of Jawaharlal Nehru Memorial Fund, Indian Society of Ocean Studies and India Foundation for the Arts.
Names of other companies in which he holds directorships of the Board and membership/ chairmanship of committees of the Board*	<ol style="list-style-type: none">1. Urban Infrastructure Trustee Ltd.2. Apollo Zipper India Ltd.3. Bell Ceramics Ltd. (Also Member of Audit Committee)4. Indian Petrochemicals Corporation Ltd.5. Modi Care Ltd.6. Asian Hotels Ltd. (Also Member of Audit Committee)7. Bharat Hotels Ltd. (Also Chairman of Audit Committee).8. Ansal Properties & Industries Ltd. (Also Member of Shareholders/ Investors Grievance Committee)9. Indian Gypsum Ltd. (Also Member of Audit Committee)
Name of the Director	Mr. C.M. Maniar
Qualifications	B.Com, M.A. (Eco.& Politics) & LL.B. Solicitor
Experience	<ul style="list-style-type: none">– Presently acting as a Partner in Crawford Bayley & Co. , Solicitors & Advocates, Mumbai since 1976.– Member of Bombay Incorporated Law Society and the Bar Council of Maharashtra.– Specializes in Corporate and Commercial Laws with special reference to Company Law, Foreign Financial Technical Collaborations, Anti Trust and Competition Laws, Foreign Exchange Laws, Consumer Protection, Drugs & Cosmetics and Insecticides, Intellectual and Industrial Property Laws- Trade Marks, Patents, Designs and Copyright and in drafting of documentation generally.– Participated in and read papers on different subjects relating to the above laws at conferences and seminars organized by various institutions, such as the Institute of Secretaries, Institute of Chartered Accountants, The Bombay Chartered Accountants Society, The Bombay Chamber of Commerce, etc.
Names of other companies in which he holds directorships of the Board and membership/ chairmanship of committees of the Board*	<ol style="list-style-type: none">1. Foods & Inns Limited2. Gujarat Ambuja Exports Limited3. Hindalco Industries Limited (Also a Member of Audit Committee and Shareholders/Investors Grievance Committee)4. Indian Card Clothing Company Limited5. Machine Tools (India) Limited (Also a Member of Audit Committee)6. Multi Commodity Exchange of India Limited7. Pioneer Investcorp Limited (Also a Member of Audit Committee and Shareholders/Investors Grievance Committee)8. Sudal Industries Limited9. Twenty- First Century Printers Limited (Also a Member of Audit Committee)10. Varun Shipping Company Limited (Also Chairman of Shareholders/Investors Grievance Committee and a Member of Audit Committee.)

* Excludes directorships in private limited companies, foreign companies, alternate directorships and also memberships of Managing Committees of various chambers/bodies. Represents memberships/chairmanships of Audit Committee and Shareholders/Investors Grievances Committee (excluding private companies).

(vi) Legal Compliances

Legal compliances applicable to the Company are taken note of and reviewed by the Board. The Company has engaged a firm of professionals for generating legal compliance reports in respect of all the functions and locations in a structured manner and status of compliances shall be generated periodically and submitted to the Board for review. No material instances of non-compliance were noticed during the financial year.

(vii) Code of Conduct

During the year under report, the Board approved a Code of business conduct for all the Board members and senior management of the Company. Such Code of Conduct has been posted on the website of the Company.

All the Board members and senior management team have affirmed compliance with the Code of Conduct as above for the financial year ended 31st March, 2006. A declaration signed by Mr. K.K. Modi, President & Managing Director as the Chief Executive Officer of the Company is annexed to this report.

3. AUDIT COMMITTEE

i) Composition and terms of reference

The Board of Directors of the Company have constituted an Audit Committee comprising of three non-executive independent directors namely Mr. O. P. Vaish, Mr. Anup N. Kothari and Mr. Lalit Bhasin, in pursuance of the provisions of Section 292A of the Companies Act, 1956. The terms of reference of the Audit Committee cover all the areas specified in Section 292A of the Companies Act, 1956 as well as those specified in clause 49 of the Listing Agreement. In pursuance of SEBI's Circular No. SEBI/CFD/DIL/CG/1/2004/12/10 dated 29th October, 2004, the Board of Directors have revised the terms of reference of the committee so as to meet the requirements of the amended clause 49. Audit Committee of the Company consists of members who are financially literate and Mr. O.P. Vaish, Chairman of the Audit Committee possesses accounting and related financial management expertise by virtue of his long experience in the relevant areas. Mr. R. Joshi, Company Secretary acts as the Secretary to the Committee.

The Chairman attended the Annual General Meeting held on September 15, 2005 to answer the shareholders' queries.

The terms of reference of the Audit Committee are in accordance with clause 49 of the listing agreement entered into with the stock exchanges and provisions of Section 292A of the Companies Act, 1956 and inter-alia include overseeing financial reporting process, reviewing the financial statements before submission to the Board, reviewing internal control systems and internal audit functions, etc. The Audit Committee is also reviewing the information relating to management discussion and analysis of financial condition, significant related party transactions, letters of internal control weaknesses issued by the statutory auditors and internal audit reports.

Audit Committee meetings are also attended by Managing Director being director in charge of finance, Executive Vice-President Finance, Company Secretary, the Internal Auditors and the Statutory Auditors as the invitees.

ii) Details of meetings and attendance of each member of the Committee

During the financial year 2005-06, the Audit Committee met four times on June 29, 2005, July 29, 2005, October 29, 2005 and January 29, 2006.

SN. No.	Name	Category of directors	No. of Committee Meetings attended (Total Meetings held-4)
1	Mr. O.P. Vaish	Non-Executive & Independent	3
2	Mr. Lalit Bhasin	Non-Executive & Independent	4
3	Mr. Anup N. Kothari	Non-Executive & Independent	4

4. SUBSIDIARY COMPANIES

(i) Since the Company does not have any material non-listed Indian subsidiary company, the requirement for appointment of an independent director on the Board of such subsidiary is not applicable.

(ii) The Audit Committee of the Company has reviewed the financial statements in respect of the investments made by its unlisted subsidiary companies in its meeting held on June 27, 2006.

(iii) Copies of the minutes of the board meetings of all the unlisted subsidiary companies held during the period from April 1, 2005 to March 31, 2006 were placed at the board meeting of the Company held on May 15, 2006. Requirement relating to significant transactions and arrangements entered into between the Company and its unlisted subsidiary companies is not applicable to the Company since none of the subsidiaries is material.

5. DISCLOSURES

(A) Basis of related party transactions

(i) Transactions with related parties in the ordinary course of business:

Transactions with all the related parties referred to in note 11 of the Notes to the Accounts to the Financial Statements for the year ended March 31, 2006 are in the ordinary course of business. These transactions were placed at the Audit Committee meeting held on June 27, 2006.

(ii) Transactions with related parties not in the normal course of business:

There are no transactions entered into by the Company with the related parties during the financial year ended March 31, 2006 whose terms and conditions are not in the normal course of business.

(iii) Transactions with related parties not on arm's length basis:

There are no transactions entered into by the Company with the related parties during the financial year ended March 31, 2006 whose terms and conditions are not on arm's length basis.

(B) Disclosure of Accounting Treatment

The financial statements for the year ended March 31, 2006 comply with the Accounting Standards issued by the Institute of Chartered Accountants of India.

(C) Board Disclosures - Risk management

The Company being an old established organization, has in place built-in internal control systems for assessing and mitigating elements of risks in relation to its operations. The departmental heads are reasonably alive of this aspect in their day to day functioning. However, with a view to apprise the Board of Directors of the risk management procedures and the steps to minimize/eliminate the same in a structured manner in terms of the requirement under Clause 49 of the Listing Agreement, the Company has engaged services of a reputed firm of Chartered Accountants to formulate risk management procedures for the Company.

(D) Proceeds from public issues, rights issues, preferential issues, etc.

The Company did not raise any funds through public issues, rights issues, preferential issues, etc. during the year.

6. REMUNERATION TO DIRECTORS

(i) Remuneration policy

The Company has not constituted any Remuneration Committee. The remuneration to be paid to the Managing/ Executive/Whole-time Directors is decided by the Board and recommended for approval by the shareholders at the Annual General Meeting. The Non-Executive Directors do not draw any remuneration from the Company except the payment of sitting fee of Rs. 20,000 for each meeting of the Board and the Board Committee attended by them. As per provisions of the Articles of Association of the Company, the overall payment of sitting fees to a director for attending the Board and Committee meetings shall not exceed Rs.3 lacs in a financial year.

ii) Details of remuneration to the directors

Name of the Director	Salary and other allowances*	Perquisites	Commission	Sitting Fees Board/Committee Meeting	Total
Mr. R.A. Shah	Nil	Nil	Nil	140,000	140,000
Mr. K.K. Modi ¹	6,000,000	Nil	4,000,000	Nil	10,000,000
Mr. S.V. Shanbhag ²	4,38,000	112,621	Nil	Nil	550,621
Mr. Lalit Bhasin	Nil	Nil	Nil	240,000	240,000
Mr. Anup N. Kothari	Nil	Nil	Nil	200,000	200,000
Mr. Lalit Kumar Modi ³	840,000	1,349,405	840,000	Nil	3,029,405
Mr. C.M. Maniar	Nil	Nil	Nil	140,000	140,000
Mr. O.P. Vaish	Nil	Nil	Nil	180,000	180,000
Mr. Samir Kumar Modi ⁴	840,000	1,440,726	840,000	Nil	3,120,726
Total	8,118,000	2,902,752	5,680,000	900,000	17,600,752

* excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

iii) Details of service contract, notice period, severance fees, etc. of directors

¹ The Company has service contract with Mr. K.K. Modi, President & Managing Director for a period of three years with effect from August 14, 2003 which has been extended by the Board of Directors for a further period of three years with effect from August 14, 2006. This extension has to be approved by the shareholders at the forthcoming Annual General Meeting. The notice period is six calendar months by either party. No severance fees is payable to him. Besides fixed salary, Mr. Modi is also entitled to payment of performance linked incentive in the form of commission @ 2% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956, subject to a ceiling of Rs. 40 lacs per annum.

² The Company has service contract with Mr. S.V. Shanbhag, Whole-time Director for a period of three years with effect from October 1, 2004. The notice period is three months by either party. However, the Company has the right to terminate appointment forthwith upon payment of three months salary only in lieu of notice and in that case he is not entitled to any benefits or perquisites.

³ The Company has service contract with Mr. Lalit Kumar Modi, Executive Director for the period from October 1, 2004 till the Annual General Meeting to be held for the approval of the audited accounts for the financial year ending March 31, 2007. The notice period is six calendar months by either party. No severance fees is payable to him. Besides salary, allowances and perquisites, Mr. Lalit Kumar Modi is also entitled to payment of commission of Rs. 8,40,000/- per annum subject to a ceiling of 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 and the aggregate amount of salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961 or Rules made thereunder shall not exceed Rs. 35 lacs per annum without the approval of shareholders in the General Meeting.

⁴ The Company has service contract with Mr. Samir Kumar Modi, Executive Director for the period from October 1, 2004 till the date of the Annual General Meeting of the Company to be held for the approval of the audited accounts for the financial year ending March 31, 2007. The notice period is six calendar months by either party. No severance fees is payable to him. Besides salary, allowances and perquisites, Mr. Samir Kumar Modi is entitled to payment of commission of Rs. 8,40,000/- per annum subject to a ceiling of 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 and the aggregate amount of salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961 or Rules made thereunder shall not exceed Rs. 35 lacs per annum without the approval of shareholders in the General Meeting.

The Company presently does not have any stock option scheme.

(iv) Details of shares/convertible instruments held in the Company by Non-Executive Directors and their relatives.

SN. No.	Name of the non-executive director/relative	No. of shares held as on March 31, 2006
1.	Mr. R.A. Shah Mrs. A.R. Shah (Wife)	1208 4000
2.	Mr. Lalit Bhasin	400
3.	Mr. Anup N Kothari Mrs. Neela Kothari (Daughter-in -Law)	1200 500
4.	Mr. C.M. Maniar jointly with Mrs. K.C. Maniar (Wife)	688
5.	Mr. O.P. Vaish	400

7. MANAGEMENT

As required under Clause 49 of the Listing Agreement, all the members of senior management team shall disclose their interest in all material, financial and commercial transactions, which may have a potential conflict with the interest of the Company at large.

The Senior Management comprising of 12 members who are the top executives of the Company have disclosed to the Board of Directors of the Company about all the material financial and commercial transactions that have taken place during the financial year ended March 31, 2006 where they had personal interest. These include dealing in /holding of shares by them/their relatives in the Company, transactions entered into by them/their relatives with the Company, transactions entered into by the Company with the companies in which they/their relatives are Directors or Members and transactions entered into by them/their relatives with the subsidiary companies of the Company and these were placed before the Board of Directors of the Company.

8. SHARE TRANSFER AND SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

The Company has a Share Transfer and Shareholders/Investors Grievance Committee which comprises of Mr. C.M. Maniar, a Non-Executive Director as its Chairman, Mr. K.K. Modi, President & Managing Director, Mr. S.V. Shanbhag, Whole-time Director and Mr. Lalit Bhasin, Non-Executive Director as its members. This Committee besides sanctioning share transfers/transmissions and other related matters, is also required to look into the redressal of shareholders' and other investors' complaints regarding transfer of shares, non-receipt of balance sheets and dividends, etc. Mr. R. Joshi, Company Secretary has been appointed as the Compliance Officer.

During the financial year 2005-06, 65 complaints were received from the shareholders/investors and same were solved to their satisfaction. There were neither any complaints nor any cases of share transfers pending as on March 31, 2006.

9. GENERAL BODY MEETINGS

Details of the last three Annual General Meetings (AGM) are as follows:

Financial year	Date of AGM	Time	Location
2002-03	September 26, 2003	4:00 PM.	Y.B. Chavan Auditorium, General Jagannath Bhosle Marg, Mumbai - 400021
2003-04	September 28, 2004	3:30 PM.	-do-
2004-05	September 15, 2005	3:30 PM.	Rama Watumull Auditorium, Kishinchand Chellaram College, Dinshaw Wacha Road, Churchgate, Mumbai - 400020

There was no other General Body Meeting during the last three years.

No special resolution was put through postal ballot during the year ended March 31, 2006 and no special resolution is proposed to be conducted through postal ballot at the next Annual General Meeting.

During the last three years following special resolutions were passed by the Company:

Sl. No.	ANNUAL GENERAL MEETING AT WHICH SPECIAL RESOLUTION WAS PASSED	PARTICULARS OF THE RESOLUTION
1.	Sixty-Sixth AGM	<ul style="list-style-type: none">Delisting of the equity shares of the Company from the Calcutta Stock ExchangeIncrease in the sitting fees payable to Non-Executive Directors from Rs. 5,000/- to Rs. 20,000/- for each meeting of the Board or Committee.
2.	Sixty-Seventh AGM	<ul style="list-style-type: none">Re-appointment of Mr. S.V. Shanbhag as Whole-time Director and approval of his remuneration
3.	Sixty-Eighth AGM	<ul style="list-style-type: none">Increase in the retainership fee of M/s. Bhasin & Co., Advocates by the Company & its wholly owned subsidiary International Tobacco Company Ltd from Rs. 14,000/- per month to Rs. 19,000/- per month & from Rs. 5,000/- per month to Rs. 18,000/- per month respectively.

10. DISCLOSURES

- Related parties and transactions with them as required under Accounting Standard 18 (AS-18) are stated in note 11 of the Notes to the Accounts attached with the financial statements for the year ended March 31, 2006. The said transactions have no potential conflict with the interest of the Company at large.
- There is no non-compliance of any legal provision of applicable laws and no penalties or strictures have been imposed by the stock exchanges, SEBI or any other statutory authority on any matter related to capital markets during the last three years.
- The Company does not have any Whistle Blower Policy.
- The Company has complied with all applicable mandatory requirements of clause 49 of the Listing Agreement during the year. The Company has not adopted any non-mandatory requirements.

11. MEANS OF COMMUNICATION

The quarterly, half yearly and annual results are published by the Company in all editions of Financial Express (English) and in Loksatta (Marathi). The quarterly and yearly results are also available on the Company's website : www.godfreyphillips.com as well as on Bombay Stock Exchange and National Stock Exchange websites: www.bseindia.com & www.nseindia.com. The half-yearly reports are not sent to household of the shareholders. During the year, there were no official news releases and no formal presentations were made to the institutional investors/analysts.

The Management Discussion and Analysis Report forms a part of the Directors' Report.

12. GENERAL SHAREHOLDER INFORMATION

(i) Annual General Meeting

Date and Time : September 8, 2006 at 3.30 PM.
Venue : Y.B. Chavan Auditorium,
General Jagannath Bhosle Marg,
Mumbai-400021

(ii) Financial Calendar for 2006-07

First Quarter Results : July, 2006
Second Quarter Results : October, 2006
Third Quarter Results : January, 2007
Annual Results : June, 2007

(iii) Date of Book Closure

: September 5, 2006 to September 8, 2006 (both days inclusive)

(iv) Dividend Payment Date

: Dividend payments shall be made on or after September 14, 2006 to those shareholders whose names shall appear on the Members' Register as on September 8, 2006.

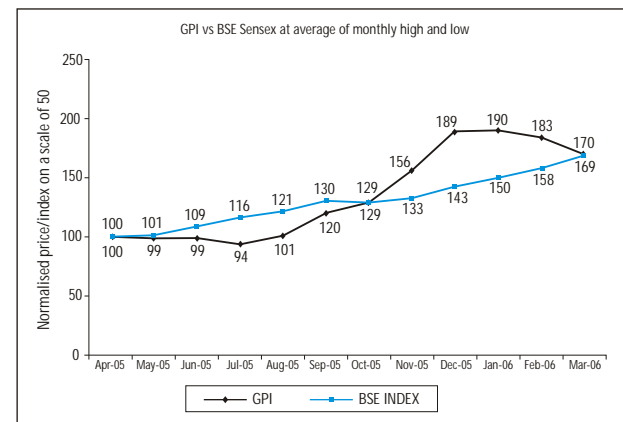
(v) Listing on the Stock Exchanges:

The Company's shares are listed on National Stock Exchange (Stock Code GODFRYPHLP), Bombay Stock Exchange (Stock Code 500163) and Calcutta Stock Exchange (Stock Code 10017335 for shares in demat form and 17335 for physical form.). The Company's application for delisting of its equity shares from Calcutta Stock exchange is still pending decision by a committee set up for the purpose by them.

(vi) Market Price Data of equity shares of the Company High, Low during each month in the financial year 2005-06, on The Bombay Stock Exchange

Month	High (Rs.)	Low (Rs.)
April 2005	863.00	740.00
May 2005	832.00	761.05
June 2005	845.00	741.00
July 2005	800.00	701.00
August 2005	880.75	740.00
September 2005	1075.00	852.00
October 2005	1080.00	990.00
November 2005	1451.60	1050.00
December 2005	1668.00	1360.00
January 2006	1642.00	1402.00
February 2006	1580.00	1360.00
March 2006	1479.00	1230.00

(vii) Performance in comparison to BSE Sensex



(viii) Registrars and Share Transfer Agent

Sharepro Services (India) Pvt. Ltd.
Satam Estate
3rd Floor, Above Bank of Baroda
Cardinal Gracious Road, Chakala
Andheri (East), Mumbai-400099
Telephone No : 022-28215168, 28329828, 28215991
Fax No : 022-28375646
E-mail : sharepro@vsnl.com

(ix) Share Transfer System

The Company's share transfer and related operations are handled by Sharepro Services (India) Pvt. Ltd., Registrars and Share Transfer Agent (RTA) who are registered with the SEBI as a Category 1 Registrar.

The shares for transfers received in physical mode by the Company/RTA, are transferred expeditiously provided the documents are complete and the shares are not under dispute. The share certificates duly endorsed are returned immediately to those who do not opt for simultaneous transfer cum dematerialisation. Confirmation in respect of the request for dematerialisation of shares is sent to the respective depositories NSDL/CDSL within 21 days.

(x) Distribution of shareholding as on March 31, 2006

Number of equity share holdings	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-50	4370	38.807	86810	0.835
51-100	2510	22.289	228829	2.200
101-500	3905	34.677	839379	8.072
501-1000	265	2.353	185923	1.788
1001-5000	154	1.368	319283	3.070
5001-10000	13	0.115	93546	0.900
10001 & Above	44	0.391	8645014	83.135
TOTAL	11261	100.00	10398784	100.00

(xi) Category of Shareholding as on March 31, 2006

Sl. No.	Category of shareholders	No. of shares held	Percentage of shareholding
A	PROMOTER'S HOLDING		
1	Promoters		
	Indian Promoters	3,800,133	36.54
	Foreign Promoters	3,736,704	35.94
2	Person's acting in concert	NIL	NIL
	Sub Total	7,536,837	72.48
B	NON-PROMOTER'S HOLDING		
	Institutional Investors		
	- Mutual Fund	125	--
	- UTI	NIL	NIL
	- Banks	8,290	0.09
	- Insurance Companies	NIL	NIL
	- State Government	4,800	0.05
	- State Financial Corp.	1,200	0.01
	- FIIs	850,282	8.17
	Sub Total	865,327	8.32
	Others		
	Private Corporate Bodies	139,283	1.34
	Indian Public	17,93,755	17.25
	NRIs/OCBs	56,141	0.54
	Director's & Relatives	7441	0.07
	Sub Total	19,96,620	19.20
	Grand Total	10,398,784	100.00

Name of the Promoters as on March 31, 2006

(A) Indian Promoters

Indo-Euro Investment Co. Pvt. Ltd, Good Investment (India) Ltd, Quick Investment (India) Ltd, Spin Investment India Ltd, K.K. Modi (Trustee), S.K. Modi (Trustee), Touchwood Investments Pvt. Ltd, Longwell Investments Pvt. Ltd, Motto Investment Pvt. Ltd, Swasth Investment Pvt. Ltd, Ritika Modi, Divya Modi, Super Investment India Ltd, M.K. Modi (Trustee), R.B. Gujarmal Modi & Bros. Pvt. Ltd, Upasana Investment Pvt. Ltd, V.K. Modi (Trustee), Vinay Kumar Modi (Trustee), HMA Udyog Pvt. Ltd, K.K. Modi, Lalit Kumar Modi, Samir Kumar Modi, K.K. Modi Investment & Financial Services Pvt. Ltd, Modi Reach Finance & Investments (I) Ltd, Gemini TradeLinks Ltd, Cindrella Holdings Pvt. Ltd, Cindrella Developments Pvt. Ltd, Cindrella Resources Pvt. Ltd, Subhsree Patrochem Industrial Investments Ltd, Aarsree Agra Ltd, Ramraj Enterprises Ltd, Anjney Investments and Trading Co. Ltd, Modicare Ltd, MCorp Global Pvt. Ltd.

(B) Foreign Promoters

Philip Morris International Finance Corporation and their nominees.

(xii) Dematerialisation of shares

The shares of the Company are compulsorily traded in the dematerialised form and are available for trading under both the Depository Systems- NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services (India) Ltd). As on March 31, 2006, a total of 44,28,193 equity shares of the Company, which forms 42.58% of the share capital, stand dematerialised.

Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's equity shares is INE260B01010.

(xiii) Outstanding GDRs/ADRs/Warrants or any Convertible Instruments

The Company has no outstanding GDRs/ADRs/Warrants or any convertible instruments.

(xiv) Plant Locations

The Company's plant is situated at Andheri (Mumbai) and the other one owned by the Company's wholly owned subsidiary, International Tobacco Company Limited, is located at Guldhar (Ghaziabad).

Andheri Plant : V.K.K. Menon Road (Sahar Road),
Chakala, Andheri (East), Mumbai-400099
Guldhar Plant : International Tobacco Company Ltd.
Delhi- Meerut Road
Guldhar, Ghaziabad

Address for Correspondence

Shareholders should address all their correspondence concerning shares to the Company's Registrars and Share Transfer Agent, Sharepro Services (India) Pvt. Ltd. at the address mentioned above or at:

Sharepro Services (India) Pvt. Ltd.
912, Raheja Centre,
Free Press Journal Road,
Nariman Point, Mumbai- 400021
Telephone No : 022-22825163, 22881569
Fax No : 022-22825484
E-mail : sharepro@vsnl.com

13. CEO/CFO CERTIFICATION

As required under the provisions of the Listing Agreement with the stock exchanges, a certificate signed by Mr. K.K. Modi, President & Managing Director as CEO and by Mr. R.N. Agarwal, Executive Vice President - Finance as the CFO is attached with this report.

14. REPORT ON CORPORATE GOVERNANCE

The Company has already submitted a Quarterly Compliance Report on Corporate Governance for the quarter ended March 31, 2006 as per the format specified in Annexure 1B with all the Stock Exchanges where the Company is listed, duly signed by the Compliance Officer.

For and on behalf of the Board

R. A. SHAH
Chairman

Place: Mumbai
Date : 30th June, 2006

CERTIFICATE

To the Members of Godfrey Phillips India Limited

We have examined the compliance of conditions of Corporate Governance by Godfrey Phillips India Limited for the year ended March 31, 2006, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended March 31, 2006 no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For A.F. Ferguson & Co.
Chartered Accountants

Place: New Delhi
Date: 30th June, 2006

- c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting. Also, during the year we have not come across any instances of deficiencies in the design or operation of such internal controls requiring disclosure to the auditors and the Audit Committee.
- d. There were no significant changes in internal control over financial reporting and in accounting policies during the year requiring disclosure to the auditors and the Audit Committee. Also, we have not come across any instances of significant fraud during the year requiring disclosure to the auditors and the Audit Committee.

K.K. MODI
Managing Director
(Chief Executive Officer)

R.N. AGARWAL
Executive Vice President - Finance
(Chief Financial Officer)

Place: New Delhi
Date: June 27th, 2006

CHIEF EXECUTIVE OFFICER (CEO) CERTIFICATION ON COMPANY'S CODE OF CONDUCT

The Board of Directors
Godfrey Phillips India Limited
Bhilwara Bhawan,
40-41, Community Centre
Friends Colony
New Delhi - 110 025

CHIEF EXECUTIVE OFFICER (CEO) AND CHIEF FINANCIAL OFFICER CERTIFICATION

The Board of Directors
Godfrey Phillips India Limited
Bhilwara Bhawan,
40-41, Community Centre
Friends Colony,
New Delhi 110 025

We K.K. Modi, Managing Director being the Chief Executive Officer and R.N. Agarwal Executive Vice-President - Finance as the Chief Financial Officer of Godfrey Phillips India Limited to the best of our knowledge and belief certify in relation to the financial statements for the year ended March 31, 2006 that:

- a. We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief :
 - i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - ii. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- b. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.

I, K.K. Modi, Managing Director being the Chief Executive Officer (CEO) of Godfrey Phillips India Limited do hereby declare that all the members of the Board of Directors and the members of the Senior Management Team of the Company have affirmed compliance with the Code of business Conduct of the Company during the financial year ended 31st March, 2006.

K.K. MODI
Managing Director
(Chief Executive Officer)

Place : New Delhi
Date : June 27, 2006

AUDITORS' REPORT

To the Members of Godfrey Phillips India Limited

1. We have audited the attached balance sheet of Godfrey Phillips India Limited as at March 31, 2006 and also the profit and loss account and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of section 227(4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above; we report that:
 - (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - (iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the requirements of the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - (v) on the basis of the written representations received from the directors as on March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - (vi) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2006;
- (b) in the case of the profit and loss account, of the profit for the year ended on that date; and
- (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For A.F. FERGUSON & CO.
Chartered Accountants

J.M. SETH
Partner
(Membership No. 17055)

New Delhi: 30th June, 2006.

Annexure referred to in paragraph 3 of Auditors' Report to the Members of GODFREY PHILLIPS INDIA LIMITED on the accounts for the year ended March 31, 2006

- (i) (a) The Company is maintaining proper records to show full particulars, including quantitative details and situation of fixed assets.
- (b) As explained to us, the Company has a system of physical verification of fixed assets which is designed to cover all fixed assets once in a period of three years and in accordance therewith, no physical verification was due in the current year. In our opinion, the frequency of verification is reasonable having regard to the size of the Company and the nature of its fixed assets.
- (c) During the year, in our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company.
- (ii) (a) The inventories have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were found reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the record of inventories, in our opinion, the Company has maintained proper records of inventories and the discrepancies noticed on physical verification between the physical stocks and the book records were not material in relation to the operations of the Company and have been properly dealt with in the books of account.
- (iii) According to the information and explanations given to us, the Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms and other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (b) to (g) of the Companies (Auditor's Report) Order, 2003 (hereinafter referred to as the Order) are not applicable.
- (iv) According to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventories and fixed assets and for the sale of goods. There are no sale of services during the year. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have been informed of any instance of major weakness in the aforesaid internal control system.
- (v) (a) According to the information and explanations given to us, we are of the opinion that during the year, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under the section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rupees five lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time except for items stated to be of specialised nature for which there are no alternate sources of supply/sales available to enable a comparison of prices.
- (vi) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of sections 58A, 58AA and other relevant provisions of the Companies Act, 1956 and the rules framed thereunder with regard to the deposits accepted from the public. As per information and explanations given to us, no order under the aforesaid sections has been passed by the Company Law Board or Reserve Bank of India or any court or any other tribunal, on the Company.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- (viii) We are informed that the maintenance of cost records has not been prescribed by the Central Government under section 209(1)(d) of the Companies Act, 1956 in respect of the Company's products.
- (ix) (a) According to the information and explanations given to us and the records of the Company examined by us, the Company has been regular in depositing undisputed statutory dues including provident fund, investor education protection fund, income-tax, wealth tax, service tax, customs duty, excise duty, cess, works contract tax and other material statutory dues applicable to it except in respect of dues of entry tax, employees' state insurance, income-tax deducted at source and sales tax which have generally been regularly deposited. We are informed that there are no undisputed statutory dues as at the year end outstanding for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of wealth tax, service tax, customs duty and cess matters which have not been deposited on account of any dispute.

The details of dues of sales tax, income-tax and excise duty as at March 31, 2006, which have not been deposited by the Company on account of dispute are as follows:

Name of the statute	Nature of the dues	Amount of dues* (Rs. lacs)	Amount deposited (Rs. lacs)	Period to which the amount relates	Forum where dispute is pending
Sales Tax Laws	Sales tax	9.24	4.82	1995-96, 2004-05, 2005-06	Sales Tax Tribunal
		21.17	4.13	1997-98 to 1999-00, 2001-02 to 2003-04, 2005-06	Upto Commissioners' Level
Central Excise Law	Excise duty	7.05	-	2000-01 to 2002-03, 2004-05	Upto Commissioners' Level
Income-Tax Law	Income-tax	211.35	211.35	1979 to 1983, 1995-96	High Court
		161.91	161.91	1996-97 to 2001-02	Income Tax Appellate Tribunal
		150.50	-	2002-03	Upto Commissioners' Level

*as per demand order including interest and penalty wherever indicated in the order

Further, as per information available with the Company, the concerned authority is in appeal against favourable orders received by the Company in respect of the following matters:

Name of the statute	Nature	Amount (Rs. lacs)	Period to which the amount relates	Forum where department has preferred appeal
Central Excise Law	Excise duty	4651.11	1980 to 1983	Customs Excise Service Tax Appellate Tribunal
Income Tax Law	Income tax	299.46	1969, 1974 to 1977, 1991-92 to 1994-95	High Court
		426.41	1997-98 to 2000-01	Income Tax Appellate Tribunal
U.P. Krishi Utpadan Mandi Adhiniyam	Mandi cess	108.20	1997-98 to 1998-99	Supreme Court

- (x) The Company does not have accumulated losses as at the end of financial year March 31, 2006. Further, the Company has not incurred any cash losses during the financial year ended March 31, 2006 and in the immediately preceding financial year ended March 31, 2005.
- (xi) According to the records of the Company examined by us and on the basis of information and explanations given to us, the Company has not defaulted in repayment of dues to banks during the year. The Company has not taken any loans from financial institutions and has not issued debentures during the year.
- (xii) In our opinion and according to the explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities during the year.
- (xiii) Since the Company is not a chit fund or nidhi/mutual benefit fund/society, paragraph 4 (xiii) of the Order is not applicable.
- (xiv) As the Company is not dealing or trading in shares, securities, debentures and other investments, paragraph 4 (xiv) of the Order is not applicable.
- (xv) According to the information and explanations given to us, the Company has not given any guarantees for loans taken by others from banks or financial institutions during the year.
- (xvi) According to the information and explanations given to us, the Company has not raised any term loans during the year.
- (xvii) In our opinion and according to the explanations given to us, and on an overall examination of the balance sheet of the Company, we report that during the year short term funds have not been used to finance long term investments.
- (xviii) The Company has not made any preferential allotment of shares during the year.
- (xix) The Company has not issued any debentures during the year.
- (xx) The Company has not raised money by way of public issue, during the year.
- (xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the year ended March 31, 2006.

For A.F. FERGUSON & CO.
Chartered Accountants

J.M. SETH
Partner
(Membership No. 17055)

New Delhi: 30th June, 2006.

Balance sheet as at March 31, 2006

Rupees in lacs

	Schedule Number	As at 31.3.2006	As at 31.3.2005
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	1039.88	1039.88
Reserves and surplus	2	35006.24	31661.15
		36046.12	32701.03
Loan funds	3		
Secured		7439.19	5920.22
Unsecured		-	187.77
Deferred credits		-	115.61
		7439.19	6223.60
Deferred tax liabilities (net)	12	407.96	-
TOTAL		43893.27	38924.63
APPLICATION OF FUNDS			
Fixed assets	4		
Gross block		22340.38	20127.78
Less: Depreciation/ write down		9623.95	7854.53
Net block		12716.43	12273.25
Capital work-in-progress and advances on capital account		267.36	646.85
		12983.79	12920.10
Investments	5	21100.51	19915.78
Deferred tax assets (net)	12	-	1576.34
Current assets, loans and advances			
Income accrued on investments		15.17	12.77
Inventories	6	14971.64	12782.57
Sundry debtors	7	1153.09	251.19
Cash and bank balances	8	668.41	520.30
Loans and advances	9	7673.50	7301.79
		24481.81	20868.62
Less:			
Current liabilities and provisions			
Current liabilities	10	9967.59	12071.95
Provisions	11	4705.25	4284.26
		14672.84	16356.21
Net current assets		9808.97	4512.41
TOTAL		43893.27	38924.63
Notes to the accounts	16		

For and on behalf of the Board of Directors

Per our report attached to the balance sheet For A.F. FERGUSON & CO., Chartered Accountants

J.M. SETH
Partner
(Membership No. 17055)

New Delhi: 30th June, 2006

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

R.N. AGARWAL
Executive Vice President (Finance)

R. JOSHI
Company Secretary

SAMIR KUMAR MODI
Executive Director

S. SERU
Chief Executive (Domestic)

A.R. ANAND
Chief Executive (International)

R.A. SHAH
Chairman

K.K. MODI
President

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

Directors

Profit and loss account for the year ended March 31, 2006

Rupees in lacs

	Schedule Number	For the year ended 31.3.2006	For the year ended 31.3.2005
INCOME			
Gross sales		143187.18	129569.80
Less : Excise duty		74770.57	61274.16
Net sales		68416.61	68295.64
Other income	13	1660.84	2967.91
		<u>70077.45</u>	<u>71263.55</u>
EXPENSES			
Raw and packing materials, manufactured and other goods	14	24940.34	26129.45
Manufacturing and other expenses	15	32789.54	33736.60
Depreciation	4	1837.20	1655.28
Increase/(decrease) in excise duty on finished goods		1405.31	(252.76)
		<u>60972.39</u>	<u>61268.57</u>
Profit before taxation and exceptional items		9105.06	9994.98
Exceptional items - Refer note 14		864.30	-
Profit before taxation		9969.36	9994.98
Provision for taxation - current		1307.35	3973.00
- deferred tax		1984.30	(337.87)
- fringe benefit tax		664.75	-
Profit after taxation		6012.96	6359.85
Balance brought forward from previous year		21064.27	18713.00
Available for appropriation		<u>27077.23</u>	<u>25072.85</u>
APPROPRIATIONS			
Proposed dividend		2339.72	2287.73
Corporate dividend tax		328.15	320.85
Transferred to general reserve		1400.00	1400.00
Surplus carried to balance sheet		23009.36	21064.27
		<u>27077.23</u>	<u>25072.85</u>
Basic and diluted earnings per share		Rs. 57.82	Rs. 61.16
(Face value of share - Rs. 10 each)			

Notes to the accounts

16

For and on behalf of the Board of Directors

Per our report attached to the balance sheet For A.F. FERGUSON & CO., Chartered Accountants	L.K. MODI Executive Director	SAMIR KUMAR MODI Executive Director	R.A. SHAH Chairman	
	S.V. SHANBHAG Whole-time Director	S. SERU Chief Executive (Domestic)	K.K. MODI President	
J.M. SETH Partner (Membership No. 17055)	R.N. AGARWAL Executive Vice President (Finance)	A.R. ANAND Chief Executive (International)	C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N. KOTHARI	Directors
New Delhi: 30th June, 2006	R. JOSHI Company Secretary			

Cash flow statement for the year ended March 31, 2006

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before tax	9969.36	9994.98
Adjustments for:		
Depreciation	1837.20	1655.28
Interest income from:		
Subsidiary companies	(200.98)	(128.92)
Debts, deposits, loans, etc.	(234.17)	(120.60)
Dividends from other long term investments	(30.25)	(49.32)
Interest income from other long term investments	(25.91)	(58.29)
Profit on redemption/sale of other long term investments	(191.81)	(372.65)
Profit on sale of other current investments	(273.10)	(236.23)
Exchange gain	(0.46)	(0.12)
Exchange loss/(gain) on foreign currency borrowings	23.70	(56.38)
Provision for wealth-tax	15.00	15.00
Interest expense - fixed loans	219.41	42.83
- others	58.89	529.41
Fixed assets written off/written down	99.13	0.27
Loss on sale of fixed assets	39.11	45.36
	<u>1335.76</u>	<u>1265.64</u>
Operating profit before working capital changes	11305.12	11260.62
Adjustments for:		
Trade and other receivables	(1081.75)	(551.49)
Inventories	(2189.07)	(294.99)
Trade and other payables	(1776.76)	1791.87
	<u>(5047.58)</u>	<u>945.39</u>
Cash generated from operations	6257.54	12206.01
Interest received	287.99	146.82
Direct taxes paid	(2245.01)	(3764.86)
	<u>(1957.02)</u>	<u>(3618.04)</u>
Net cash from operating activities	4300.52	8587.97
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(2060.44)	(5951.95)
Proceeds from sale of fixed assets	107.83	29.91
Purchase of investments	(76188.43)	(87166.40)
Proceeds from sale of investments	75468.61	(4833.44)
Dividends from long term other investments	27.86	53.18
Interest received from other long term investments	25.91	87.16
Loans and deposits made	(278.50)	(834.50)
Loans and deposits received back	400.00	550.00
Interest received	134.94	144.13
Net cash used in investing activities	<u>(2362.22)</u>	<u>(10755.51)</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Term loan availed	-	4598.00
Repayment of fixed deposits	(181.19)	(138.22)
Repayment of long term borrowings	(107.72)	(232.48)
Proceeds from working capital borrowings	1431.97	114.61
Interest paid	(333.94)	(107.95)
Dividend paid	(2278.92)	(1970.24)
Corporate dividend tax paid	(320.85)	(258.21)
Net cash used in financing activities	<u>(1790.65)</u>	<u>2005.51</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	147.65	(162.03)
Opening cash and cash equivalents	520.30	682.21
- Cash and bank balances		
Closing cash and cash equivalents	668.41	520.30
- Cash and bank balances	(0.46)	(0.12)
- Effect of exchange rate changes on exchange earner foreign currency bank balance	<u>667.95</u>	<u>520.18</u>

For and on behalf of the Board of Directors

Per our report attached to the balance sheet For A.F. FERGUSON & CO., Chartered Accountants	L.K. MODI Executive Director	SAMIR KUMAR MODI Executive Director	R.A. SHAH Chairman	
	S.V. SHANBHAG Whole-time Director	S. SERU Chief Executive (Domestic)	K.K. MODI President	
J.M. SETH Partner (Membership No. 17055)	R.N. AGARWAL Executive Vice President (Finance)	A.R. ANAND Chief Executive (International)	C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N. KOTHARI	Directors
New Delhi: 30th June, 2006	R. JOSHI Company Secretary			

Schedules 1 to 16 annexed to and forming part of the accounts for the year ended March 31, 2006

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 1 - Share capital		
AUTHORISED		
60,000 Preference shares of Rs. 100 each	60.00	60.00
2,44,00,000 Equity shares of Rs. 10 each	<u>2440.00</u>	<u>2440.00</u>
	<u>2500.00</u>	<u>2500.00</u>
ISSUED, SUBSCRIBED AND PAID UP		
1,03,98,784 Equity shares of Rs. 10 each fully paid up	<u>1039.88</u>	<u>1039.88</u>
Of the above equity shares		
(i) 86,82,578 shares were allotted as fully paid up as bonus shares by capitalisation of general reserves Rs. 311.57 lacs, share premium account Rs. 36.75 lacs and profits Rs. 519.94 lacs.		
(ii) 83,490 shares were allotted as fully paid up to the shareholders of D. Macropolo & Company Limited on amalgamation.		

SCHEDULE 2 - Reserves and surplus

REVALUATION RESERVE			
Per last balance sheet	236.16		236.16
CAPITAL REDEMPTION RESERVE			
Per last balance sheet	30.00		30.00
GENERAL RESERVE			
Per last balance sheet	10330.72	8930.72	
Add: Amount transferred from profit and loss account	<u>1400.00</u>	<u>11730.72</u>	<u>1400.00</u>
PROFIT AND LOSS ACCOUNT	<u>23009.36</u>	<u>21064.27</u>	<u>31661.15</u>
	<u>35006.24</u>		

GODFREY PHILLIPS
INDIA LIMITED

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 3- Loan funds		
SECURED		
From banks:		
- Term loan from a bank secured by way of an exclusive charge over specific plant and machinery (payable within 12 months Rs. 1119.50 lacs; previous year Rs. Nil)	4478.00	4391.00
- Cash credit and working capital demand loan secured against hypothecation of stocks and book debts and second charge on certain immovable properties of the Company	<u>2961.19</u>	<u>1529.22</u>
	7439.19	5920.22
UNSECURED		
Fixed deposits (Payable within 12 months Rs. Nil; previous year Rs. 181.19 lacs)	-	181.19
Interest accrued and due on above	-	<u>6.58</u>
		187.77
DEFERRED CREDITS		
From a supplier against import of machineries (Payable within 12 months Rs. Nil; previous year Rs. 115.61 lacs)	-	115.61
	<u>7439.19</u>	<u>6223.60</u>

SCHEDULE 4- Fixed assets

										Rupees in lacs	
GROSS BLOCK (AT COST)				DEPRECIATION/WRITE DOWN					NET BLOCK		
	As at 31.3.2005	Additions	Deductions	As at 31.3.2006	As at 31.3.2005	For the year	On deductions	Write down**	As at 31.3.2006	As at 31.3.2006	As at 31.3.2005
Goodwill	1.20	-	-	1.20	-	-	-	-	-	1.20	1.20
Patents and trade marks	0.51	-	-	0.51	-	-	-	-	-	0.51	0.51
Land (leasehold)	437.46#	-	-	437.46#	-	-	-	-	-	437.46	437.46
Land (freehold)	377.93	-	-	377.93	-	-	-	-	-	377.93	377.93
Buildings	1201.07*	9.24	54.71	1155.60*	233.35	22.19	7.12	-	248.42	907.18	967.72
Plant and machinery	15001.68	1576.30	16.64	16561.34	6369.70	1479.82	4.19	66.40	7911.73	8649.61	8631.98
Electrical installation and equipments	133.14	31.10	0.68	163.56	45.09	7.66	0.32	-	52.43	111.13	88.05
Computers and Information technology equipments	793.91	121.69	81.45	834.15	425.60	106.48	66.98	-	465.10	369.05	368.31
Furniture, fixtures and office equipments	1113.42	170.23	31.17	1252.48	451.17	75.28	8.39	3.77	521.83	730.65	662.25
Motor vehicles	1067.46	603.82	115.13	1556.15	329.62	145.77	50.95	-	424.44	1131.71	737.84
Total	20127.78	2512.38	299.78	22340.38	7854.53	1837.20	137.95	70.17	9623.95	12716.43	
Previous year	13721.31	6595.67	189.20	20127.78	6312.91	1655.28	113.66	-	7854.53		12273.25
Capital work-in-progress and advances on capital account (net of write down of Rs.14.07 lacs; previous year Rs. Nil)										267.36	646.85
										12983.79	12920.10

* Includes Rs. 0.02 lac (previous year Rs. 0.02 lac) being the cost of shares in co-operative societies and Rs. Nil (previous year Rs. 4.20 lacs) towards cost of a flat in a co-operative society and Rs. 125.90 lacs (previous year Rs. 125.90 lacs) towards cost of buildings for which titles are yet to be registered in the name of the Company.

** Write down of certain items identified for disposal to their expected realisable value.

Includes Rs. 425.98 lacs (previous year Rs. 425.98 lacs) in respect of a plot of land, title for which is yet to be registered in the name of the Company.

1. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of capital advances) Rs. 68.71 lacs (previous year Rs. 584.03 lacs).

2. Additions for the year includes exchange loss (net) of Rs. 53.00 lacs (previous year- net of exchange gain (net) of Rs. 128.85 lacs) on account of fluctuations in the rate of exchange including increase/decrease in rupee liability of long term foreign currency loan.

3. Additions for the year include Rs. 31.12 lacs (previous year Rs. 92.68 lacs) towards the amount of borrowing costs capitalised.

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 5 - Investments		
a) LONG TERM (At cost)		
TRADE INVESTMENT - QUOTED		
Molind Engineering Limited (Formerly MOI Engineering Limited)		
3,500 Equity shares of Rs. 10 each fully paid up	0.25	0.25
TRADE INVESTMENT - UNQUOTED		
Subsidiary company		
International Tobacco Company Limited		
1,00,000 Equity shares of Rs. 100 each fully paid up	100.00	100.00
OTHER INVESTMENTS - QUOTED		
Unit Trust of India		
3,83,900 6.75% Tax Free US64 Bonds of Rs. 100 each	383.90	383.90
OTHER INVESTMENTS - UNQUOTED		
Subsidiary companies:		
Chase Investments Limited		
40,010 Equity shares of Rs. 100 each fully paid up	40.01	40.01
1,58,490 Equity shares of Rs. 100 each Rs. 50 paid up	79.24	79.24
City Leasing and Finance Company Limited		
4,00,020 Equity shares of Rs. 10 each fully paid up	40.00	40.00
15,49,980 Equity shares of Rs. 10 each Rs. 5.50 paid up	85.25	85.25
Manhattan Credits and Finance Limited		
19,50,000 Equity shares of Rs. 10 each fully paid up	195.00	195.00
Others:		
Success Principles India Limited		
1,99,673 Equity shares of Rs. 10 each fully paid up	19.97	19.97
Modi Entertainers Networks Private Limited		
1,000 Equity shares of Rs. 10 each fully paid up	0.10	0.10
Sundaram Mutual Fund		
Nil (Previous year 1,00,000) Units of Sundaram Growth Fund - Appreciation of Rs. 10 each	-	10.00
(737 Units purchased and 1,00,737 Units sold during the year)		
38,53,757 (Previous year 38,49,081) Units of Sundaram Bond Saver - Appreciation of Rs. 10 each	597.31	596.31
(4,676 Units purchased during the year)		
23,01,943 Units of Sundaram Bond Saver - Bonus (Bonus Units) of Rs. 10 each	236.84	236.84
10,00,000 Units of Sundaram Fixed Term Plan Series 1 Feb'06 (100 days) - Growth Plan of Rs. 10 each	100.00	-
(purchased during the year)		
Franklin Templeton Mutual Fund		
Nil (Previous year 7,68,420) Units of Templeton India Growth Fund - Dividend of Rs. 10 each	-	103.45
(sold during the year)		
25,59,040 Units of Templeton India Income Fund - Growth of Rs. 10 each	353.50	353.50
20,00,000 Units of Templeton Monthly Income Plan-Half Yearly Dividend of Rs. 10 each	198.18	198.18
35,84,037 Units of Templeton India Government Securities Fund - Growth Plan of Rs. 10 each	597.23	597.23
14,33,918 Units of Templeton India Income Builder Account Plan A - Growth of Rs. 10 each	300.00	300.00
Prudential ICICI Mutual Fund		
103,08,923 Units of Prudential ICICI Income Plan-Growth of Rs. 10 each	1455.72	1455.72
25,56,402 Units of Prudential ICICI Gilt Fund Investment Plan - Growth of Rs. 10 each	398.12	398.12
45,38,687 Units of Prudential ICICI Flexible Income Plan - Growth of Rs. 10 each	500.00	500.00
100,00,000 Units of Prudential ICICI FMP- Growth Yearly XII Institutional of Rs. 10 each	1000.00	1000.00
50,00,000 Units of Prudential ICICI FMP Plan - Institutional Cumulative -XXVIII of Rs. 10 each	500.00	-
(Purchased during the year)		

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 5 - Investments (Continued)		
Birla Mutual Fund		
42,47,005 Units of Birla Income Plus Plan B - Growth of Rs. 10 each	757.68	757.68
14,12,030 Units of Birla Gilt Plus P F Plan - Growth of Rs. 10 each	199.02	199.02
12,46,416 Units of Birla Gilt Plus Regular Plan - Growth of Rs. 10 each	199.37	199.37
100,00,000 Units of Birla Fixed Term Plan Series A-Growth of Rs. 10 each	1000.00	1000.00
17,68,113 Units of Birla MIP Plan C - Growth of Rs. 10 each	277.78	277.78
50,00,000 Units of Birla FTP Series H - Growth of Rs. 10 each (purchased during the year)	500.00	-
26,49,562(Previous year 24,86,877) Units of Birla Sun Life (formerly Alliance Capital)		
Monthly Income- Quarterly Dividend - Reinvestment of Rs. 10 each		
(1,62,685 Units purchased during the year)	299.44	282.26
Kotak Mahindra Mutual Fund		
21,54,634 Units of Kotak Gilt (Investment Regular) - Growth of Rs. 10 each	362.87	362.87
27,52,305 Units of Kotak Bond Regular - Growth of Rs. 10 each	408.84	408.84
DSP Merrill Lynch Mutual Fund		
39,55,693 Units of DSP Merrill Lynch Bond Fund Retail - Growth of Rs. 10 each	595.82	595.82
SBI Mutual Fund		
34,44,028 Units of Magnum Income Fund - Growth Plan of Rs. 10 each	397.87	397.87
22,92,313 Units of Magnum Monthly Income Plan-Growth Option of Rs. 10 each	316.21	316.21
Standard Chartered Mutual Fund		
136,53,406 Units of GSSG GSSIF - Investment Plan - Growth Option of Rs. 10 each	1641.90	1641.90
150,00,000 Units of Grindlays Fixed Maturity 7th Plan -B - Growth of Rs. 10 each	1500.00	1500.00
HDFC Mutual Fund		
40,56,978 Units of HDFC Income Fund - Growth of Rs. 10 each	471.19	471.19
16,58,375 Units of HDFC High Interest Fund - Growth Plan of Rs. 10 each	254.87	254.87
Chola Mutual Fund		
5,88,235 Units of Chola Triple Ace - Regular - Cumulative of Rs. 10 each	99.38	99.38
7,85,989 Units of Chola Triple Ace- Regular - Bonus- Bonus Units of Rs. 10 each	88.89	88.89
HSBC Mutual Fund		
50,00,000 Units of HSBC Fixed Term Series 13 Institutional Growth of Rs. 10 each	500.00	-
(purchased during the year)		
Principal Mutual Fund		
14,01,384 Units of Principal Income Fund-Growth Plan of Rs. 10 each	200.00	200.00
20,00,000 Units of Principal Deposit Fund (FMP-6) 371 Days Plan Mar 05- Growth Rs. 10 each	200.00	200.00
UTI Mutual Fund		
13,93,338 Units of UTI Bond Advantage Fund Growth Plan of Rs. 10 each	205.54	205.54
50,00,000 Units of UTI Fixed Maturity Plan - (YFM P/02/05) Growth Plan of Rs. 10 each	500.00	500.00
Reliance Mutual Fund		
14,11,423 Units of RMTF-Retail Plan - Growth Plan - Bonus Option of Rs. 10 each	142.86	142.86
50,00,000 Units of Reliance Fixed Maturity Fund - Annual Plan -Series1- Growth Option of Rs. 10 each	500.00	500.00
9,72,195 Units of RIF Retail Plan - Growth of Rs. 10 each (48,60,976 Units purchased and	100.00	-
38,88,781 Units sold during the year)		
Deutsche Mutual Fund		
50,00,000 Units of Deutsche Fixed Term Fund - Growth Option of Rs. 10 each	500.00	500.00
TATA Mutual Fund		
50,00,000 Units of TATA Fixed Horizon Fund Series 1- Plan A (371 days) - Growth of Rs. 10 each	500.00	500.00
100,00,000 Units of TATA Fixed Horizon Fund Series 3 - Scheme B (6 Months) - Growth of Rs. 10 each	1000.00	-
(purchased during the year)		
ING Vysya Mutual Fund		
19,69,066 Units of ING Vysya Select Debt Fund-Growth of Rs. 10 each	200.00	200.00
Government Securities		
(Lodged as security with Government Authorities)	0.36	0.36

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 5 - Investments (Continued)		
B) CURRENT (At lower of cost and fair value)		
OTHER INVESTMENT - UNQUOTED		
Principal Mutual Fund		
Nil (Previous year 137,90,424) Units of Principal Cash Management Fund Liquid Option Institutional Premium Plan - Growth of Rs. 10 each (sold during the year)	-	1420.00
	<u>21100.51</u>	<u>19915.78</u>
Aggregate amount of quoted investments	<u>384.15</u>	<u>384.15</u>
Aggregate amount of unquoted investments:		
- Units of Mutual Funds	20156.43	18971.70
- Others	559.93	559.93
	<u>20716.36</u>	<u>19531.63</u>
Market value of quoted investments	390.64	396.85
Net asset value/repurchase price of units of Mutual Funds	24199.51	22843.14

Note:

Details of current investments purchased and sold during the year:

- Principal Cash Management Fund, Liquid Institutional Premium Plan Growth 6,44,43,033 Units of Rs. 10 each at cost of Rs. 6655 lacs.
- Prudential ICICI Liquid Plan Institutional Plus - Growth Option 8,80,91,782 Units of Rs. 10 each at cost of Rs. 13675 lacs
- Birla Cash Plus Institutional Premium - Growth 12,84,18,578 Units of Rs. 10 each at cost of Rs. 14130 lacs
- Tata Liquid Super High Investment Fund - Appreciation 19,05,415 Units of Rs. 1000 each at cost of Rs. 23735 lacs
- Grindlays Cash Fund Super Institutional Plan C-Growth 6,98,97,513 units of Rs. 10 each at cost of Rs. 6035 lacs
- UTI Liquid Cash Plan Institutional - Growth Option 6,90,513 Units of Rs. 1000 each at cost of Rs. 7670 lacs.
- Tata Short Term Bond Fund-Growth 83,39,310 Units of Rs. 10 each at cost of Rs. 1000 lacs.

GODFREY PHILLIPS
— INDIA LIMITED —

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 6 - Inventories		
At cost or under:		
Stores and spare parts	443.25	389.55
At lower of cost and net realisable value:		
Raw and packing materials	8752.88	8414.79
Work-in-process	102.03	89.66
Finished goods - Cigarettes	4546.15	2880.80
- Cigars	119.37	56.76
Other goods	602.27	545.32
Real estate*	405.69	405.69
	<u>14971.64</u>	<u>12782.57</u>

*Includes land at revalued cost

SCHEDULE 7- Sundry debtors

CONSIDERED GOOD		
Over six months - unsecured	1.17	0.45
Others - secured	3.43	22.91
- unsecured	1148.49	227.83
CONSIDERED DOUBTFUL		
Over six months - unsecured	74.16	104.58
Others - unsecured	4.41	-
	<u>1231.66</u>	<u>355.77</u>
Less: Provision for doubtful debts	78.57	104.58
	<u>1153.09</u>	<u>251.19</u>

SCHEDULE 8 - Cash and bank balances

Cash on hand	15.89	16.72
Cheques on hand	120.10	106.41
With scheduled banks : On current accounts	495.25	365.15
: On margin money accounts	36.72	31.57
: On fixed deposit accounts**	0.45	0.45
	<u>668.41</u>	<u>520.30</u>

** Lodged as security with Government Authorities

SCHEDULE 9 - Loans and advances

Unsecured, considered good, unless otherwise stated:		
Advances recoverable in cash or in kind or for value to be received*	1789.09	1788.35
Considered doubtful	64.87	2797.51
	<u>1853.96</u>	<u>4585.86</u>
Less: Provision for doubtful advances	64.87	2797.51
	<u>1789.09</u>	<u>1788.35</u>
Inter corporate deposits	825.00	1025.00
Dues from subsidiary companies**	3591.11	3180.94
With excise and customs on current/cenvat accounts	627.58	767.92
Income-tax recoverable	840.72	539.58
	<u>7673.50</u>	<u>7301.79</u>

* Includes:

- Rs. 0.37 lac (previous year Rs. 1.46 lacs) due from officer/directors of the Company. Maximum amount due during the year Rs. 2.81 lacs (previous year Rs. 1.46 lacs).
 - Rs. 0.05 lac (previous year Rs. 0.09 lac) due from Modipon Ltd., a company under the same management. Maximum amount due during the year Rs. 0.11 lac (previous year Rs. 0.53 lac).
 - Rs. 0.03 lac (previous year Rs. 0.03 lac) due from a private company in which some of the directors of the Company are directors.
- ** Dues from subsidiaries represent loans and advances recallable on demand and comprise of:
- Interest free loans to Kashyap Metal and Allied Industries Limited (given prior to insertion of section 372A on October 31, 1998) Rs. 342.65 lacs (previous year Rs. 342.65 lacs). Maximum amount due during the year Rs. 342.65 lacs (previous year Rs. 342.65 lacs). ii) Interest bearing loans/advances to:
 - Loans to Kashyap Metal and Allied Industries Limited Rs. 1205.05 lacs including interest (net of tax) for the year (previous year Rs. 1119.81 lacs). Maximum amount due during the year Rs. 1205.05 lacs (previous year Rs. 1119.81 lacs).
 - Advances to International Tobacco Company Limited Rs. 2043.41 lacs (previous year Rs. 1718.48 lacs). Maximum amount due during the year Rs. 2043.41 lacs (previous year Rs. 1718.48 lacs).

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 10 - Current liabilities		
Sundry creditors #		
Dues of small scale industrial undertakings (Refer Note 8)	796.95	314.48
Dues of other than small scale industrial undertakings	9127.94	11696.83
Interest accrued but not due on loans, deposits and deferred credits	42.70	60.64
	<u>9967.59</u>	<u>12071.95</u>

Sundry creditors do not include any amounts outstanding as on March 31, 2006 which are required to be credited to the Investor Education and Protection Fund.

SCHEDULE 11 - Provisions

Proposed dividend	2339.72	2287.73
Provision for corporate dividend tax	328.15	320.85
Taxation (net of payments)	743.35	700.12
Provision for encashable leave salary	1294.03	975.56
	<u>4705.25</u>	<u>4284.26</u>

SCHEDULE 12 - Deferred taxation

Deferred tax liabilities		
- Accelerated depreciation	1004.80	983.97
- Capital gains	63.80	52.58
	<u>1068.60</u>	<u>1036.55</u>
Deferred tax assets		
- Accrued expenses deductible on payment	612.36	1629.51
- Voluntary retirement scheme	-	6.54
- Provision for doubtful debts/advances	48.28	976.84
	<u>660.64</u>	<u>2612.89</u>
Deferred tax liabilities/(assets) - net	<u>407.96</u>	<u>(1576.34)</u>

	For the year ended 31.3.2006	For the year ended 31.3.2005
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SCHEDULE 13 - Other income

Rent and hire charges (gross) from:		
- Subsidiary company	4.80	305.16
- Others	90.91	98.77
Interest (gross) from:		
- Subsidiary companies	200.98	128.92
- Debts, deposits, loans, etc.	234.17	120.60
Income (gross) from other long term investments:		
- Dividends	30.25	49.32
- Interest	25.91	58.29
Profit on redemption/sale of other long term investments	191.81	372.65
Profit on sale of other current investments	273.10	236.23
Liabilities no longer required, written back	-	1014.52
Export incentives	164.30	185.03
Sundries	444.61	398.42
	<u>1660.84</u>	<u>2967.91</u>
Tax deducted at source:		
Interest income	63.87	52.41
Rent and hire charges	17.80	15.37
Sundries	0.28	0.16

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
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SCHEDULE 14 - Raw and packing materials, manufactured and other goods

Raw and packing materials consumed	16741.55	15807.95
Manufacturing charges paid to a subsidiary company for cigarettes manufactured on our behalf	2570.01	2583.03
Purchases for resale (including transferred from raw and packing materials)	7426.06	7610.95
Expenditure incurred on real estate stock development	-	9.29

(Increase)/decrease in work-in-process, finished goods and other goods

Opening stock:

- Work-in-process	89.66	79.61
- Finished goods - Cigarettes	2880.80	3248.77
- Cigars	56.76	46.12
- Other goods	545.32	325.56
- Real estate	405.69	396.40
	<u>3978.23</u>	<u>4096.46</u>

Closing stock:

- Work-in-process	102.03	89.66
- Finished goods - Cigarettes	4546.15	2880.80
- Cigars	119.37	56.76
- Other goods	602.27	545.32
- Real estate	405.69	405.69
	<u>5775.51</u>	<u>3978.23</u>
	(1797.28)	118.23
	<u>24940.34</u>	<u>26129.45</u>

GODFREY PHILLIPS
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Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
SCHEDULE 15 - Manufacturing and other expenses		
Salaries, wages and bonus	4569.20	4398.00
Contribution to provident and other funds (including administrative charges)	313.33	269.32
Workmen and staff welfare expenses	581.23	503.03
Contribution to gratuity and superannuation fund	503.97	521.11
Consumption of stores and spare parts	38.33	18.35
Power and fuel	438.62	372.72
Repairs and maintenance - Buildings	157.68	169.90
- Machinery	217.78	196.25
- Others	203.73	188.70
Rent (including Rs. 26.56 lacs; previous year Rs. 62.24 lacs to a subsidiary company)	609.84	578.28
Rates and taxes	3676.70	6456.64
Insurance	287.59	224.77
Freight and cartage	869.37	773.15
Legal and professional expenses	1452.33	1370.86
Auditors' remuneration	63.74	64.69
Interest - Fixed loans	219.41	42.83
- Others	58.89	529.41
Cash discount	48.37	45.82
Commission paid to other than sole selling agents	129.15	89.84
Advertising and sales promotion	11050.95	9896.06
Selling and distribution expenses	1714.26	1765.62
Travelling and conveyance	1577.44	1394.20
Donations	64.66	194.24
Bad debts and advances written off	0.67	3.98
Provision for doubtful debts and advances	6.90	462.01
Fixed assets written off/written down	99.13	0.27
Loss on sale of fixed assets	39.11	45.36
Technical services fee and royalty	623.93	639.83
Miscellaneous expenses	3173.23	2521.36
	<u>32789.54</u>	<u>33736.60</u>
(a) Consumption of stores and spare parts has been computed after deducting the amount of spare parts charged to repairs and maintenance - machinery	158.87	135.30
(b) Insurance has been computed after deducting the amount for transit insurance charged to raw and packing materials, stores, etc.	13.41	14.64

SCHEDULE 16 - Notes to the accounts for the year ended March 31, 2006**1. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards and relevant presentational requirements of the Companies Act, 1956.

i) Fixed assets and depreciation

Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and include interest on loans attributable to the acquisition of assets upto the date of their commissioning.

Value of goodwill and patents and trade marks is not amortized because, in view of the management, there is no diminution in their value. No amortization is done in respect of leasehold land in view of the lease being perpetual.

Depreciation in the accounts is charged on the straight line method at the rates prescribed under the Companies Act, 1956 and is calculated on a full year basis on additions during the year and no depreciation is provided on assets deleted during the year. Extra shift depreciation is computed in full on a concern basis and not prorated to the number of days of shift working. Assets, other than items costing upto Rs. 5000 each, are depreciated upto 95% of their value and 5% residual value is retained in the books.

The depreciation rates which are different from the principal rates specified in Schedule XIV of the Companies Act, 1956 are as follows:

Items of machinery and equipment costing upto Rs. 5,000 each acquired upto December 16, 1993

95%

Assets, other than data processing equipment, acquired upto December 31, 1987 and data processing equipment acquired upto December 31, 1986

SLM equivalent of rates applicable under the Income-tax Rules, 1962 at the time of acquisition of such assets.

ii) Investments

Long term investments are stated at cost net of provision for permanent diminution, if any. Current investments are stated at cost or fair value, whichever is lower.

iii) Inventories

Inventories are valued at cost or net realisable value, whichever is lower except stores and spare parts which are valued at cost or under and real estate which is valued at revalued cost of land and construction thereon at cost. The cost of raw materials, stores and spares and other goods is determined on monthly weighted average cost basis. The cost of finished goods and work-in-process is determined on standard absorption cost basis which approximates actual costs. Absorption cost comprises raw materials cost, direct wages, appropriate share of production overheads and applicable excise duty paid/payable thereon.

iv) Revenue recognition

Sale of goods is recognised at the point of despatch of goods to customers. Sales are inclusive of excise duty where applicable but

exclusive of sales tax. Income from investments is recognised on an accrual basis.

v) Retirement benefits

The Company has various schemes of retirement benefits such as provident fund, superannuation fund and gratuity fund duly recognised by the Income-tax authorities. The funds are administered through trustees and the Company's contributions are charged against the revenue every year. Accrued liability for gratuity and leave salary encashable on retirement are determined on the basis of actuarial valuation at the end of the financial year.

vi) Income-tax

Provision for income-tax is based on the assessable profits computed in accordance with the provisions of the Income-tax Act, 1961.

Deferred tax is recognised, subject to the consideration of prudence, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

vii) Proposed dividends

Dividends proposed by the directors as appropriation of profits are provided for in the books of account, pending approval of shareholders at the annual general meeting.

viii) Research and development expenditure

Research and development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred.

ix) Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rates prevailing at the time of transactions. Gains/losses on settlement of the transactions are taken to the relevant revenue heads in the profit and loss account except where the foreign currency liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets. Other monetary items are translated at the year end rates and the gains/losses are taken to the relevant revenue heads in the profit and loss account.

The difference between the forward rate and the exchange rate at the date of the forward contract transaction is recognised as income or expense over the life of the contract in the profit and loss account. The exchange difference on such contracts i.e. difference between the exchange rate at the reporting /settlement date and the exchange rate on the date of inception of the contract/the last reporting date, is recognised as income or expense for the period except where the foreign exchange liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets.

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
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2. REMUNERATION OF DIRECTORS

a) Included in Schedule 15 are:		
Salaries*	81.18	78.54
Monetary value of benefits	29.03	15.15
Commission	56.80	53.50
Sitting fees	9.00	10.20
	<u>176.01</u>	<u>157.39</u>

*excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

b) Computation of directors' commission and net profit in accordance with Section 198 of the Companies Act, 1956

Profit before taxation	9969.36	9994.98
Add/(less):		
Directors' remuneration	176.01	157.39
Profit on redemption/sale of other long term investments	(191.81)	(372.65)
Provision for doubtful debts and advances	6.90	462.01
	<u>9960.46</u>	<u>10241.73</u>

Maximum commission payable to the three working Directors @ 4% of the above profit	398.42	409.67
Restricted to	56.80	53.50

3. AUDITORS' REMUNERATION*

As auditors		
Audit fee	27.50	24.00
Out of pocket expenses	3.07	2.47
In other capacity		
For limited review of unaudited financial results	18.75	20.01
For corporate governance, consolidated financial statements and other certification work	2.13	2.15
For tax audit	6.00	5.25
For management consultancy	2.00	5.86
For provident fund audit	—	1.01
For miscellaneous certificates	4.29	3.87
Out of pocket expenses	—	0.07
	<u>63.74</u>	<u>64.69</u>

* Net of service tax

4. EXPENDITURE ON SCIENTIFIC RESEARCH AND DEVELOPMENT

Revenue expenditure	310.75	195.59
Capital expenditure	305.97	107.39

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
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5. CONTINGENT LIABILITIES NOT PROVIDED FOR

a) Demands from excise, sales tax and other authorities disputed by the Company	781.12	293.86
b) Claims against the Company, not acknowledged as debts	—	1.89
c) Undertaking given to a bank in respect of cash credit facilities granted to the subsidiary company - International Tobacco Company Limited upto the limit of Rs. 150 lacs which is secured by hypothecation of stocks of that company. The actual overdrawn balance as on March 31, 2006 was Rs. Nil; previous year Rs. Nil		
d) Uncalled liability on shares partly paid	148.99	148.99

6. The following are the particulars of dues on account of sales tax, excise duty and income-tax as at March 31, 2006 that have been disputed by the Company in appeals pending before the appellate authorities:

Name of the statute	Nature of the dues	Amount of dues (Rs. lacs)	Amount deposited (Rs. lacs)	Period to which the amount relates	Forum where dispute is pending
Sales Tax Laws	Sales tax	9.24	4.82	1995-96, 2004-05, 2005-06	Sales Tax Tribunal
		21.17	4.13	1997-98 to 1999-00, 2001-02 to 2003-04, 2005-06	Upto Commissioners' level
Central Excise Law	Excise duty	7.05	—	2000-01 to 2002-03, 2004-05	Upto Commissioners' level
Income Tax Law	Income Tax	211.35**	211.35	1979 to 1983, 1995-96	High Court
		161.91**	161.91	1996-97 to 2001-02	Income Tax Appellate Tribunal
		150.50**	—	2002-03	Upto Commissioners' level

* as per demand orders including interest and penalty where indicated in the demand

** provided for in the accounts

Further, there are no dues of wealth tax, customs duty and service tax which have not been deposited on account of any disputes.

Further, as per information available with the Company, the concerned authority is in appeal against favourable orders received by the Company in respect of the following matters:

Name of the statute	Nature	Amount (Rs. lacs)	Period to which the amount relates	Forum where department has preferred appeal
Central Excise Law	Excise duty	4651.11	1980 to 1983	Customs Excise Service Tax Appellate Tribunal
Income Tax Law	Income tax	299.46	1969, 1974 to 1977, 1991-92 to 1994-95	High Court
		426.41	1997-98 to 2000-01	Income Tax Appellate Tribunal
U.P. Krishi Utpadan Mandi Adhiniyam	Mandi cess	108.20	1997-98 to 1998-99	Supreme Court

7. The Company and its contract manufacturer have received various show cause notices from Excise Authorities asking them to explain why certain amounts mentioned in these notices should not be paid. As these notices are in the nature of explanations required, the Company does not consider these to constitute a liability of any kind.

8. Small scale undertakings have been identified by the Company on the basis of information provided to it by its suppliers. The names of such undertakings to whom dues are outstanding for more than 30 days as at March 31, 2006 are Hitkari Multifilters Limited, Studio Printall (N. Delhi) Pvt. Ltd., Perfect Industries, Packfine Corrugating Industries, S&S Packaging, Tapan Engineering Works, Triwal Boards Pvt. Ltd., Quality Tape Manufacturers, Perfect Engineering Works, Radix Microsystems, Image India Private Limited, Anand Packing Private Limited, Arvind Packing Industries, Raghushree Packaging Pvt. Ltd, Amla Engineering Works, Amla Engineering Company Pvt. Ltd., Brij & Co., Assam Cigarette Company Pvt. Ltd. and R C Tobacco Pvt. Ltd.

9. The Company has taken on lease plant and machinery, motor vehicles and office equipments of an aggregate cost of Rs. Nil (previous year Rs. 212.21 lacs) with future obligations by way of lease rentals amounting to Rs. Nil (previous year Rs. 4.33 lacs). Lease rentals charged to the profit and loss account during the year is Rs. 2.61 lacs (previous year Rs. 23.55 lacs).

The Company has entered into various operating lease agreements for premises (residential, offices, godowns, etc.). These lease arrangements are cancellable in nature and range between two to three years and are usually renewable by mutual consent on mutually agreeable terms. The aggregate rentals paid under such agreements have been charged as rent in Schedule 15.

The Company, pursuant to the contract manufacturing arrangement with its wholly owned subsidiary company International Tobacco Company Limited, has given to and taken from it certain plant and machinery and equipments for use in its manufacturing operations. Hire charges payable in respect thereof have been charged as rent in Schedule 15 and those receivable have been accrued as income in Schedule 13.

The Company has let out and sub-let part of its owned and rented office premises under lease arrangements which are cancellable in nature but renewable on mutually agreeable terms. The rent and hire charges receivable in respect thereof have been accrued as income in Schedule 13.

10. Exchange loss included in the profit and loss account for the year is Rs. 6.15 lacs (previous year Rs. 18.41 lacs).

11. Related party disclosures under Accounting Standard 18

(A) Names of related parties and nature of related party relationships:

(a) Subsidiary companies:

International Tobacco Company Limited
Chase Investments Limited
City Leasing and Finance Company Limited
Manhattan Credits and Finance Limited
Kashyap Metal and Allied Industries Limited
Unique Space Developers Limited

(b) Associates:

Philip Morris International Finance Corporation, of which the Company is an associate.
Success Principles India Limited, an associate of the Company.

(c) Key management personnel:

Mr. K. K. Modi	President and Managing Director
Mr. Lalit Kumar Modi	Executive Director
Mr. Samir Kumar Modi	Executive Director
Mr. S.V. Shanbhag	Whole-time Director

(d) Enterprises over which key management personnel and their relatives are able to exercise significant influence:

Modi Entertainment Limited
Modicare Limited
Modern Homecare Products Limited
K.K.Modi Investment & Financial Services Private Limited
Beacon Travels Private Limited
Modipon Limited
Assam Cigarette Company Private Limited
R C Tobacco Private Limited
HMA Udyog Private Limited
Kaushambi Investment & Leasing Company Private Limited
Bina Fashion N Food Private Limited
Modicare Foundation
Modi Apollo International Group Private Limited
Priyal Hitay Nidhi
Colorbar Cosmetics Private Ltd.
Gujarmal Modi Science Foundation
Ananda Embroidery Industries Pvt. Ltd.

(B) Disclosure of transactions between the Company and related parties and the status of outstanding balances as at the year end:

Rupees in lacs

Nature of transactions	Subsidiary companies		Associates		Key management personnel		Enterprises over which significant influence exists	
	2006	2005	2006	2005	2006	2005	2006	2005
Sale of goods	4.00	48.32	-	-	-	-	10.83	38.92
Purchase of goods/services	0.94	118.04	-	-	-	-	6724.78#	416.98#
Purchase of fixed assets	-	-	-	-	-	-	0.97	1.48
Loans given								
- Kashyap Metal and Allied Industries Ltd.	78.50	184.50	-	-	-	-	-	-
Deposits received back	-	-	-	-	-	-	-	90.00
Deposits refunded	-	-	-	-	-	-	-	2.82
Interest income	200.98	128.92	-	-	-	-	-	4.87
Rent and hire charges received	4.80	305.16	-	-	-	0.06	76.77	76.14
Manufacturing charges paid								
- International Tobacco Company Ltd.	2570.01	2583.03	-	-	-	-	-	-
Rent and hire charges paid	26.56	62.24	-	-	-	-	19.35	21.53
Payments for employees on deputation	-	6.46	-	-	-	-	72.90	64.84
Donation given	-	-	-	-	-	-	28.50	111.25
Expenses recovered	50.57	52.86	-	-	0.54	0.53	1.76	6.88
Expenses reimbursed	647.84*	637.44*	-	-	-	-	4.47	7.86
Dividend payment (gross)								
- Philip Morris International Finance Corp.	-	-	822.07	709.97	-	-	-	-
Managerial remuneration##	-	-	-	-	167.01	147.19	-	-
Amounts written back	-	-	-	-	-	-	-	462.55
Provision made for doubtful advances	-	-	-	-	-	-	-	462.55
Provision for doubtful advances written back	-	-	-	-	-	-	2732.64@	-
Balance outstanding as at the year end								
- Loans and advances	3591.11	3180.94	-	-	0.33	1.40	1.72**	2762.71**
- Sundry creditors	-	-	-	-	0.24	2.83	733.67	10.73
- Undertaking given to a bank	150.00	150.00	-	-	-	-	-	-

* comprising reimbursements to wholly owned subsidiary, International Tobacco Company Limited for payments made by them for and on behalf of the Company under the contract manufacturing arrangement, out of the funds made available by the Company.

** includes Rs. Nil (previous year Rs. 2732.64 lacs) provided for as doubtful advances.

includes Rs. 507.03 lacs (previous year Rs. 384.55 lacs) from Beacon Travels Private Ltd. Current year figure includes sums of Rs. 2489.76 lacs relating to Assam Cigarettes Company Pvt. Ltd. and Rs. 3682.02 lacs to R C Tobacco Pvt. Ltd. towards additional consideration for cigarettes purchased in an earlier year.

excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

@ relates to Assam Cigarette Company Pvt. Ltd. and R C Tobacco Pvt. Ltd.

12. Segment reporting disclosures under Accounting Standard 17

(A) Business segments:

Based on the guiding principles given in Accounting Standard-17 "Segment Reporting" issued by the Institute of Chartered Accountants of India, the Company's primary business segments are (a) Cigarette and tobacco products; and (b) Tea and other retail products.

(B) Geographical segments:

Since the Company's activities/operations are primarily within the country and considering the nature of products it deals in, the risks and returns are same and as such there is only one geographical segment.

Financial information about the primary business segments is presented in the table below:

Rupees in lacs

	Cigarette and tobacco products	Tea and other retail products	Total	Cigarette and tobacco products	Tea and other retail products	Total
	For the year ended March 31, 2006			For the year ended March 31, 2005		
1. Segment revenue						
- External sales (gross)	138323.53	4863.65	143187.18	125336.14	4233.66	129569.80
- Less : Excise duty	74770.57	—	74770.57	61274.16	—	61274.16
- Net sales	63552.96	4863.65	68416.61	64061.98	4233.66	68295.64
- Other income	799.95	51.75	851.70	2029.20	62.16	2091.36
- Total	64352.91	4915.40	69268.31	66091.18	4295.82	70387.00
- Unallocable income			809.14			876.55
Total revenue			70077.45			71263.55
2. Segment result	9977.50	(461.71)	9515.79	9486.08	(104.39)	9381.69
- Unallocable income net of unallocable expenses			729.48			667.31
Profit before interest and taxation			10245.27			10049.00
- Interest expenses			(275.91)			(54.02)
- Provision for taxation			(3956.40)			(3635.13)
Profit after taxation			6012.96			6359.85
3. Other information	As at March 31, 2006			As at March 31, 2005		
a) Segment assets	31830.73	1482.67	33313.40	28684.60	1264.07	29948.67
- Unallocable assets/investments			25252.71			25332.17
Total assets			58566.11			55280.84
b) Segment liabilities	10699.95	391.09	11091.04	12657.06	212.61	12869.67
- Share capital and reserves			36046.12			32701.03
- Unallocable liabilities			11428.95			9710.14
Total liabilities			58566.11			55280.84
	For the year ended March 31, 2006			For the year ended March 31, 2005		
c) Capital expenditure including capital work in progress	1978.51	154.38	2132.89	5873.80	45.45	5919.25
d) Depreciation	1771.18	66.02	1837.20	1599.59	55.69	1655.28
e) Non cash expenditure other than depreciation	295.95	114.80	410.75	690.00	12.83	702.83

Segment accounting policies:

In addition to the significant accounting policies applicable to the business segments as set out in Note 1 in Schedule 16, the accounting policies in relation to segment accounting are as under:

a) Segment revenue and expenses:

Segment revenue and expenses only include items directly attributable to the segment. They do not include investment income, interest income from inter-corporate deposits and loans given, dividend income, profit or loss on sale of investments, provision for diminution in value of investments, interest expense (excluding those relating to segments) and bill discounting charges, donations and provision for taxation (both current and deferred). Since the corporate office of the Company primarily caters to the cigarette and tobacco products segment, its expenses have been considered to be attributable to the same.

b) Segment assets and liabilities:

All segment assets and liabilities are directly attributable to the segment.

Segment assets include all operating assets used by the segment and consist principally of net fixed assets, inventories, sundry debtors, loans and advances and operating cash and bank balances. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include investments, inter-corporate deposits and loans given, bank balances for unclaimed dividend and fixed deposits interest, real estate stock, share capital, reserves and surplus, loan funds, dividends payable and income-tax (both current and deferred).

For the year
ended
31.3.2006

For the year
ended
31.3.2005

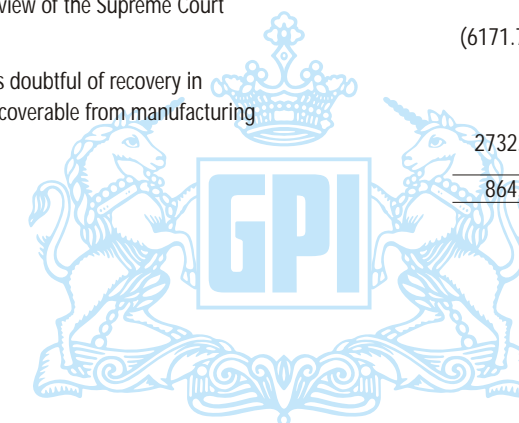
13. Earnings per share has been computed as under:

(a) Net profit as per profit and loss account (Rs.lacs)	6012.96	6359.85
b) Weighted average number of equity shares outstanding	1,03,98,784	1,03,98,784
(c) Basic and diluted earnings per share -Rupees (face value of share-Rs.10 each)	57.82	61.16

14. Exceptional items comprise of :

Rupees in lacs

a) Provision for luxury taxes on cigarettes and interest thereon reversed pursuant to orders passed by the tax authorities based on the Supreme Court judgement in January, 2005	4303.43	—
b) Additional purchase consideration to small scale cigarette manufacturing units in Assam in view of the Supreme Court judgement in September, 2005	(6171.78)	—
c) Write back of amount provided as doubtful of recovery in earlier years in respect of dues recoverable from manufacturing units referred to in (b) above	2732.65	—
	<u>864.30</u>	<u>—</u>



GODFREY PHILLIPS
— INDIA LIMITED —

15. ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PARAGRAPHS 3,4C AND 4D OF PART II OF SCHEDULE VI OF THE COMPANIES ACT, 1956.

			For the year ended 31.3.2006		For the year ended 31.3.2005
	Unit	Qty.	Rs. in lacs	Qty.	Rs. in lacs
I. Class of Goods, Capacity and Production					
Class of goods manufactured					
– Cigarettes					
Capacity (per annum)					
– Licensed	Million	18750*		18750*	
– Installed (on a single shift basis)	Million	3434		3377	
Production	Million	5026		4736	
Cigarettes manufactured by the subsidiary company on behalf of the Company	Million	8031		7380	
*Including 25% admissible production over licensed capacity					
Installed capacity has been certified by a director but has not been verified by the auditors as this is a technical matter.					
II. Turnover and stocks					
a) Particulars of sales (gross)*					
– Cigarettes	Million	12852	133247.50	12195	119588.14
– Unmanufactured tobacco	Tonne	5955	4534.15	8036	5241.38
– Cigars	'000 Pcs	1395	228.85	1034	177.29
– Other goods			5176.68		4562.99
b) Details of stock-in-trade					
i) Opening stocks					
– Cigarettes	Million	392	2880.80	490	3248.77
– Cigars	'000 Pcs	993	56.76	931	46.12
– Real estate			405.69		396.40
– Other goods			545.32		325.56
ii) Closing stocks					
– Cigarettes	Million	570	4546.15	392	2880.80
– Cigars	'000 Pcs	987	119.37	993	56.76
– Real estate			405.69		405.69
– Other goods			602.27		545.32
*Includes sales to a subsidiary Rs. 0.46 lac (previous year Rs. 39.42 lacs) and excludes samples, write-offs, etc.					
III. Raw and packing materials consumed					
Unmanufactured tobacco	Tonne	12604	7553.05	12531	7040.33
Cigarette paper	Bobbin	132893	603.10	126576	603.96
Cardboard (shells, slides and others)	Tonne	4300	3875.05	4409	3662.57
Filter rods	Million	1430	1495.89	1416	1500.57
Aluminium foil/Metallised paper	Million Meter	179	948.12	175	883.07
Cellulose paper	Tonne	305	590.43	286	535.57
Miscellaneous			1675.91		1581.88
			16741.55		15807.95

			For the year ended 31.3.2006		For the year ended 31.3.2005
	Unit	Qty.	Rs. in lacs	Qty.	Rs. in lacs
IV. Purchases for resale					
Unmanufactured tobacco	Tonne	5955	3955.85	8036	4542.84
Cigarettes	'000 Pcs	240	3.03	–	–
Cigars	'000 Pcs	1790	206.52	1099	113.60
Other goods-Tea, etc. (including packing materials and processing charges)			3260.66		2954.51
			7426.06		7610.95
V. Value of imported and indigenous raw and packing materials and spare parts					
		% of total consumption	Rs. in lacs	% of total consumption	Rs. in lacs
(A) Raw and packing materials					
i) Imported		4.99	836.21	5.95	940.04
ii) Indigenous		95.01	15905.34	94.05	14867.91
		100.00	16741.55	100.00	15807.95
(B) Spare parts					
i) Imported		27.51	43.70	43.15	58.38
ii) Indigenous		72.49	115.17	56.85	76.92
		100.00	158.87	100.00	135.30
VI. Earnings in foreign exchange					
a) Export of goods on F.O.B. basis			6020.07		7253.33
b) Interest			–		1.15
c) Others including freight, etc.			166.74		132.72
			6186.81		7387.20
VII. Value of imports on C.I.F. basis (including those in transit)					
i) Raw materials			617.93		917.13
ii) Components and spare parts			83.02		72.93
iii) Capital goods			485.70		2884.39
iv) Purchases for resale - cigars, etc.			119.42		64.16
			1306.07		3938.61
VIII. Expenditure in foreign currencies					
Fees for technical services (net of tax)			561.60		575.95
Professional /consultancy fees (net of tax)			160.96		386.30
Interest (net of tax)			223.98		109.47
Others			448.44		336.06
			1394.98		1407.78
IX. Dividends remittance to non-resident shareholders in foreign currency					
Amount of dividends			822.07		709.97
Number of non-resident shareholders to whom remittances made			1		1
Number of shares on which remittances made			37,36,704		37,36,704
Year for which dividends remitted (year ended)			31.3.2005		31.3.2004

16. Foreign currency exposures that are not hedged by derivative instruments or otherwise are as follows:

Particulars	As at 31.3.2006		As at 31.3.2005	
	Amount in foreign currency (Lacs)	Amount in Rs. Lacs	Amount in foreign currency (Lacs)	Amount in Rs. Lacs
Loan funds	100.00 USD –	4478.00 –	100.00 USD 2.03 EURO	4391.00 115.61
Sundry debtors	22.16 USD 0.18 EURO	983.81 9.49	2.64 USD 0.22 EURO	114.69 12.14
Current liabilities and provisions	1.49 USD 1.85 EURO 82.83 YEN 0.24 HKD 0.01 GBP	66.76 100.25 34.47 1.40 0.37	3.63 USD 2.68 EURO – – –	158.84 143.14 – – –

17. The figures for the previous year have been re-cast, wherever necessary to conform to the current year's classification.

For and on behalf of the Board of Directors		
L.K. MODI Executive Director	SAMIR KUMAR MODI Executive Director	R.A. SHAH Chairman
S.V. SHANBHAG Whole-time Director	S. SERU Chief Executive (Domestic)	K.K. MODI President
R.N. AGARWAL Executive Vice President (Finance)	A.R. ANAND Chief Executive (International)	C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N. KOTHARI
Mumbai: 30th June, 2006	R. JOSHI Company Secretary	Directors

GODFREY PHILLIPS
— INDIA LIMITED —

Additional Information as required under Part IV of Schedule VI to the Companies Act, 1956.
Balance Sheet Abstract and Company's General Business Profile:

I. Registration Details	
Registration Number	8587
State Code	11
Balance Sheet Date	31.3.2006
II. Capital Raised during the year (Amount in Rs. Thousands)	
Public Issue	Nil
Rights Issue	Nil
Bonus Issue	Nil
Private Placement	Nil
III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)	
Total Liabilities	5856611
Total Assets	5856611
Source of Funds:	
Paid-up Capital	103988
Reserves and Surplus	3500624
Secured Loans	743919
Unsecured Loans	–
Applications of Funds:	
Net Fixed Assets	1298379
Investments	2110051
Net Current Assets	940101
Misc. Expenditure	Nil
Accumulated Losses	Nil
IV. Performance of the Company (Amount in Rs. Thousands)	
Turnover	14571232
Total Expenditure	13574296
Profit/(Loss) Before Tax	996936
Profit/(Loss) After Tax	601296
Earning Per Share (Rs.)	57.82
Dividend Rate (%)	225
V. Generic Names of Three Principal Products/Services of the Company (as per monetary terms)	
Item Code No.(ITC Code)	2402.20
Product Description	Cigarettes containing tobacco
Item Code No. (ITC Code)	2401.20
Product Description	Unmanufactured tobacco
Item Code No. (ITC Code)	902.30
Product Description	Tea black in packets

For and on behalf of the Board of Directors		
L.K. MODI Executive Director	SAMIR KUMAR MODI Executive Director	R.A. SHAH Chairman
S.V. SHANBHAG Whole-time Director	S. SERU Chief Executive (Domestic)	K.K. MODI President
R.N. AGARWAL Executive Vice President (Finance)	A.R. ANAND Chief Executive (International)	C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N. KOTHARI
Mumbai: 30th June, 2006	R. JOSHI Company Secretary	Directors

Statement pursuant to Section 212 of the Companies Act, 1956

A. Holding Company's interest in the subsidiaries at the close of the respective financial years.

	Name of the Subsidiary	Financial Year ended	Extent of interest
1.	International Tobacco Company Limited	31.3.2006	The entire issued share capital of 100000 Equity Shares of Rs. 100 each fully paid.
2.	Chase Investments Limited	31.3.2006	The entire issued share capital of 198500 Equity Shares of Rs. 100 each of which 40010 are fully paid up and 158490 are Rs. 50 paid up.
3.	City Leasing and Finance Company Limited	31.3.2006	The entire issued share capital of 1950000 Equity Shares of Rs. 10 each of which 400020 are fully paid up and 1549980 are Rs. 5.50 paid up.
4.	Manhattan Credits and Finance Limited	31.3.2006	The entire issued share capital of 1950000 Equity Shares of Rs. 10 each fully paid.
5.	Kashyap Metal and Allied Industries Limited	31.3.2006	Nil (It is a subsidiary under Section 4(3) (b)(ii) of the Companies Act, 1956.)
6.	Unique Space Developers Limited	31.3.2006	Nil (It is a subsidiary under Section 4(3) (b)(ii) of the Companies Act, 1956.)

B. Net aggregate amount of profits/(losses) of the subsidiaries not dealt with in the Holding Company's accounts.

	Name of the Subsidiary	For Financial Year ended 31.3.2006 Rs. in lacs	For Previous Financial Years Rs. in lacs
1.	International Tobacco Company Limited	27.95	746.20
2.	Chase Investments Limited	36.91	136.28
3.	City Leasing and Finance Company Limited	27.12	65.62
4.	Manhattan Credits and Finance Limited	(18.47)	37.21
5.	Kashyap Metal and Allied Industries Limited	Not Applicable	Not Applicable
6.	Unique Space Developers Limited	Not Applicable	Not Applicable

C. Net aggregate amount of profits/(losses) of the subsidiaries dealt with in the Holding Company's accounts being the dividend received.

	Name of the Subsidiary	For Financial Year ended 31.3.2006 Rs. in lacs	For Previous Financial Years Rs. in lacs
1.	International Tobacco Company Limited	Nil	Nil
2.	Chase Investments Limited	Nil	8.16
3.	City Leasing and Finance Company Limited	Nil	8.29
4.	Manhattan Credits and Finance Limited	Nil	7.20
5.	Kashyap Metal and Allied Industries Limited	Not Applicable	Not Applicable
6.	Unique Space Developers Limited	Not Applicable	Not Applicable

For and on behalf of the Board of Directors

L.K. MODI
Executive DirectorSAMIR KUMAR MODI
Executive DirectorR.A. SHAH
ChairmanS.V. SHANBHAG
Whole-time DirectorS. SERU
Chief Executive (Domestic)K.K. MODI
PresidentR.N. AGARWAL
Executive Vice President (Finance)A.R. ANAND
Chief Executive (International)C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

Directors

Mumbai: 30th June, 2006

R. JOSHI
Company Secretary

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF GODFREY PHILLIPS INDIA LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF GODFREY PHILLIPS INDIA LIMITED, ITS SUBSIDIARIES AND AN ASSOCIATE.

We have examined the attached consolidated balance sheet of Godfrey Phillips India Limited, its subsidiaries and an associate (the Group), as at March 31, 2006 and also the consolidated profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Godfrey Phillips India Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit.

subsidaries, and an associate, in our opinion, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

1. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

(a) in the case of the consolidated balance sheet, of the consolidated state of affairs of Godfrey Phillips India Limited, its subsidiaries and an associate as at March 31, 2006;

(b) in the case of the consolidated profit and loss account, of the consolidated results of operations of Godfrey Phillips India Limited, its subsidiaries and an associate for the year ended on that date; and

(c) in the case of the consolidated cash flow statement, of the consolidated cash flows of Godfrey Phillips India Limited, its subsidiaries and an associate for the year ended on that date.

2. We did not audit the financial statements of subsidiaries viz., Chase Investments Limited, City Leasing and Finance Company Limited, Manhattan Credits and Finance Limited, Kashyap Metal and Allied Industries Limited and Unique Space Developers Limited whose financial statements reflect total assets of Rs. 2284.13 lacs as at March 31, 2006 and total revenues of Rs. 88.83 lacs for the year ended on that date (these figures include intragroup balances and intragroup transactions eliminated on consolidation) and an associate viz. Success Principles India Limited whose financial statements reflect the Group's share of profit upto March 31, 2006 of Rs. 30.65 lacs and the Group's share of profit of Rs. 2.28 lacs for the year ended on that date as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries and an associate is based solely on the report of the other auditors.

New Delhi: 30th June, 2006.

For A.F. FERGUSON & CO.
Chartered AccountantsJ.M. SETH
Partner

(Membership No. 17055)

3. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements and Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Godfrey Phillips India Limited, its subsidiaries and an associate included in the consolidated financial statements.

4. On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of Godfrey Phillips India Limited, its

Consolidated balance sheet as at March 31, 2006

Rupees in lacs

	Schedule Number	As at 31.3.2006	As at 31.3.2005
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	1039.88	1039.88
Reserves and surplus	2	35565.60	32254.32
		36605.48	33294.20
Minority interests		5.17	6.43
Loan funds	3		
Secured		7439.19	5920.22
Unsecured		—	187.77
Deferred credits		—	115.61
		7439.19	6223.60
Deferred tax liabilities (net)	12	467.46	—
TOTAL		44517.30	39524.23
APPLICATION OF FUNDS			
Fixed assets	4		
Gross block		28162.47	24281.28
Less: Depreciation/write down		11645.12	9677.23
Net block		16517.35	14604.05
Capital work-in-progress and advances on capital account		290.36	2001.94
		16807.71	16605.99
Investments	5	21111.64	19873.60
Deferred tax assets (net)	12	—	1545.92
Current assets, loans and advances			
Income accrued on investments		15.17	12.91
Inventories	6	15277.43	12992.11
Sundry debtors	7	1159.66	251.19
Cash and bank balances	8	685.16	546.71
Loans and advances	9	4807.05	4795.64
		21944.47	18598.56
Less			
Current liabilities and provisions			
Current liabilities	10	10431.77	12629.74
Provisions	11	4914.75	4470.10
		15346.52	17099.84
Net current assets		6597.95	1498.72
TOTAL		44517.30	39524.23
Notes to the consolidated accounts	16		

For and on behalf of the Board of Directors

Per our report attached to the balance sheet For A.F. FERGUSON & CO., Chartered Accountants

L.K. MODI
Executive Director
S.V. SHANBHAG
Whole-time Director

SAMIR KUMAR MODI
Executive Director
S. SERU
Chief Executive (Domestic)

R.A. SHAH
Chairman
K.K. MODI
President

J.M. SETH
Partner
(Membership No. 17055)
New Delhi: 30th June, 2006

R.N. AGARWAL
Executive Vice President (Finance)
R. JOSHI
Company Secretary

A.R. ANAND
Chief Executive (International)

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

Directors

Consolidated profit and loss account for the year ended March 31, 2006

Rupees in lacs

	Schedule Number	For the year ended 31.3.2006	For the year ended 31.3.2005
INCOME			
Gross sales		143186.72	129530.38
Less: Excise duty		74770.57	61274.16
Net sales		68416.15	68256.22
Other income	13	1559.13	2640.03
		69975.28	70896.25
EXPENSES			
Raw and packing materials, manufactured and other goods	14	22375.72	23499.29
Manufacturing and other expenses	15	35025.31	35552.92
Depreciation	4	2052.89	1855.88
(Decrease) / Increase in excise duty on finished goods		1,405.31	(252.76)
		60859.23	60655.33
Profit before taxation and exceptional items		9116.05	10240.92
Exceptional items - Refer note 13		864.30	—
Profit before taxation		9980.35	10240.92
Provision for taxation - current		1313.55	4063.82
- deferred tax		2013.38	(335.94)
- fringe benefit tax		677.81	—
Profit after taxation		5975.61	6513.04
Provision for taxation for prior years written back		—	0.27
Profit after taxation before share of results of an associate and minority interests		5,975.61	6,513.31
Share of net profit of an associate		2.28	1.64
Profit after taxation before minority interests		5977.89	6514.95
Minority interests		(1.26)	(0.44)
Net profit		5979.15	6515.39
Balance brought forward from previous year		21656.14	19149.33
Available for appropriation		27635.29	25664.72
APPROPRIATIONS			
Proposed dividend		2339.72	2287.73
Corporate dividend tax		328.15	320.85
Transferred to general reserve		1400.00	1400.00
Surplus carried to consolidated balance sheet		23567.42	21656.14
		27635.29	25664.72
Basic and diluted earnings per share (Face value of share - Rs. 10 each)		Rs. 57.50	Rs. 62.66
Notes to the consolidated accounts	16		

For and on behalf of the Board of Directors

Per our report attached to the balance sheet For A.F. FERGUSON & CO., Chartered Accountants

L.K. MODI
Executive Director
S.V. SHANBHAG
Whole-time Director

SAMIR KUMAR MODI
Executive Director
S. SERU
Chief Executive (Domestic)

R.A. SHAH
Chairman
K.K. MODI
President

J.M. SETH
Partner
(Membership No. 17055)

R.N. AGARWAL
Executive Vice President (Finance)

A.R. ANAND
Chief Executive (International)

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

New Delhi: 30th June, 2006

R. JOSHI
Company Secretary

Directors

Consolidated cash flow statement for the year ended March 31, 2006

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before tax	9980.35	10240.92
Adjustments for:		
Depreciation	2052.89	1855.88
Interest income from debts, deposits, loans, etc.	(235.64)	(123.34)
Dividends from other long term investments	(36.03)	(57.27)
Interest income from other long term investments	(25.91)	(58.29)
Profit on redemption/sale of other long term investments	(261.91)	(427.75)
Profit on sale of other current investments	(273.10)	(236.23)
Exchange gain	(0.46)	(0.12)
Exchange loss/(gain) on foreign currency borrowings	23.70	(56.38)
Provision for wealth - tax	15.00	15.00
Interest expense - fixed loans	219.41	42.83
- others	58.89	533.49
Fixed assets written off/written down	103.43	36.19
Loss on sale of fixed assets	37.88	45.04
Provision made for diminution in the value of other long term investments	35.95	0.45
	<u>1,714.10</u>	<u>1,569.50</u>
Operating profit before working capital changes	<u>11,694.45</u>	<u>11,810.42</u>
Adjustments for:		
Trade and other receivables	(739.32)	141.34
Inventories	(2,285.32)	(283.03)
Trade and other payables	<u>(1,823.14)</u>	<u>2,215.08</u>
	<u>(4,847.78)</u>	<u>2,073.39</u>
Cash generated from operations	<u>6846.67</u>	<u>13883.81</u>
Interest received	157.06	112.67
Dividends received	5.78	7.95
Purchase of investments*	(599.49)	(199.98)
Proceeds from sale of investments*	<u>582.61</u>	<u>85.28</u>
Direct taxes paid	<u>(2,358.31)</u>	<u>(3,859.28)</u>
	<u>(2,212.35)</u>	<u>(3,853.36)</u>
Net cash from operating activities	<u>4634.32</u>	<u>10,030.45</u>
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(2,419.13)	(7,586.08)
Proceeds from sale of fixed assets	109.73	30.45
Purchase of investments	(76,188.43)	(87,166.40)
Proceeds from sale of investments	<u>75,468.61</u>	<u>82,332.96</u>
Dividends from long term other investments	(719.82)	(4,833.44)
Interest received from other long term investments	27.86	53.18
Interest received	25.91	87.16
Deposits made	(200.00)	(650.00)
Loans/Deposits received back	400.00	550.00
Interest received	73.10	90.33
Net cash used in investing activities	<u>(2,702.35)</u>	<u>(12,258.40)</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Term loan availed	-	4598.00
Repayment of fixed deposits	(181.19)	(138.22)
Repayment of long term borrowings	(107.72)	(232.48)
Proceeds working capital borrowings	1431.97	114.61
Interest paid	(337.27)	(109.31)
Dividend paid	(2,278.92)	(1,970.24)
Corporate dividend tax paid	<u>(320.85)</u>	<u>(258.21)</u>
Net cash from/ (used) in financing activities	<u>(1,793.98)</u>	<u>2004.15</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Opening cash and cash equivalents	137.99	(223.80)
- Cash and bank balances	546.71	770.39
Closing cash and cash equivalents		
- Cash and bank balances	685.16	546.71
- Effect of exchange rate changes on foreign currency bank balance	<u>(0.46)</u>	<u>(0.12)</u>
	<u>684.70</u>	<u>546.59</u>

*By the subsidiary companies engaged in the business of investments

For and on behalf of the Board of Directors

Per our report attached
to the balance sheet
For A.F. FERGUSON & CO.,
Chartered Accountants

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

R.N. AGARWAL
Executive Vice President (Finance)

R. JOSHI
Company Secretary

SAMIR KUMAR MODI
Executive Director

S. SERU
Chief Executive (Domestic)

A.R. ANAND
Chief Executive (International)

R.A. SHAH
Chairman

K.K. MODI
President

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

Directors

J.M. SETH
Partner
(Membership No. 17055)

New Delhi: 30th June, 2006

Schedules 1 to 16 annexed to and forming part of the consolidated accounts for the year ended March 31, 2006

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
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SCHEDULE 1 - Share capital

AUTHORISED

60,000 Preference shares of Rs. 100 each
2,44,00,000 Equity shares of Rs. 10 each

60.00	60.00
2440.00	2440.00
<u>2500.00</u>	<u>2500.00</u>

ISSUED, SUBSCRIBED AND PAID UP

1,03,98,784 Equity shares of Rs. 10 each fully paid up

1039.88	1039.88
---------	---------

Of the above equity shares

- (i) 86,82,578 shares were allotted as fully paid up as bonus shares by capitalisation of general reserves Rs. 311.57 lacs, share premium account Rs. 36.75 lacs and profits Rs. 519.94 lacs.
(ii) 83,490 shares were allotted as fully paid up to the shareholders of D. Macropolo & Company Limited on amalgamation.

SCHEDULE 2 - Reserves and surplus

REVALUATION RESERVE

At commencement of the year

236.16	236.16
--------	--------

CAPITAL REDEMPTION RESERVE

At commencement of the year

30.13	30.13
-------	-------

GENERAL RESERVE

At commencement of the year

10331.89	8931.89
----------	---------

Add: Amount transferred from
profit and loss account

1400.00	11731.89	1400.00	10331.89
---------	----------	---------	----------

PROFIT AND LOSS ACCOUNT

23567.42	21656.14
<u>35565.60</u>	<u>32254.32</u>

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
--	--------------------	--------------------

SCHEDULE 3- Loan funds

SECURED

From banks:

• Term loan from a bank secured by way of an exclusive charge over specific plant and machinery (payable within 12 months Rs. 1119.50 lacs; previous year Rs. Nil)	4478.00	4391.00
• Cash credit and working capital demand loan secured against hypothecation of stocks and book debts and second charge on certain immovable properties of the Company	2961.19	7439.19
		1529.22
		5920.22

UNSECURED

Fixed deposits (Payable within 12 months Rs. Nil; previous year Rs. 181.19 lacs)	-	181.19
Interest accrued and due on above	-	6.58
		187.77

DEFERRED CREDITS

From a supplier against import of machineries (Payable within 12 months Rs. Nil; previous year Rs. 115.61 lacs)	-	115.61
	7439.19	6223.60

SCHEDULE 4- Fixed assets

Rupees in lacs

	GROSS BLOCK (AT COST)			DEPRECIATION/WRITE DOWN						NET BLOCK	
	As at 31.3.2005	Additions	Deductions	As at 31.3.2006	As at 31.3.2005	For the year	On deductions	Write down***	As at 31.3.2006	As at 31.3.2006	As at 31.3.2005
Goodwill	166.69*	-	-	166.69*	-	-	-	-	-	166.69	166.69
Patents and trade marks	0.51	-	-	0.51	-	-	-	-	-	0.51	0.51
Land(leasehold)	735.68	73.46	-	809.14#	-	-	-	-	-	809.14	735.68
Land (freehold)	393.43	-	-	393.43	-	-	-	-	-	393.43	393.43
Buildings	2428.88**	1015.67	54.71	3389.84**	328.57	81.11	7.12	-	402.56	2987.28	2100.31
Plant and machinery	17173.09	2116.37	16.64	19272.82	7995.17	1607.49	4.19	66.40	9664.87	9607.95	9177.92
Electrical installation and equipments	249.84	47.95	5.29	292.50	67.51	13.89	3.24	-	78.16	214.34	182.33
Computers and information technology equipments	858.03	143.35	96.37	905.01	463.11	121.01	79.49	-	504.63	400.38	394.92
Furniture, fixtures and office equipments	1177.67	195.63	33.84	1339.46	485.95	80.12	10.18	3.77	559.66	779.80	691.72
Motor vehicles	1097.46	610.74	115.13	1593.07	336.92	149.27	50.95	-	435.24	1157.83	760.54
Total	24281.28	4203.17	321.98	28162.47	9677.23	2052.89	155.17	70.17	11645.12	16517.3	
Previous year	16517.00	8101.35	337.07	24281.28	8046.74	1855.88	225.39	-	9677.23		14604.05
Capital work-in-progress and advances on capital account (net of write down of Rs. 14.07 lacs; previous year Rs. Nil)										290.36	2001.94
										16807.71	16605.99

* Includes Rs. 165.49 lacs on consolidation

** Includes Rs. 0.02 lac (previous year Rs. 0.02 lac) being the cost of shares in co-operative societies and Rs. Nil (previous year Rs. 4.20 lacs) towards cost of a flat in a co-operative society and Rs. 125.90 lacs (previous year Rs. 125.90 lacs) towards cost of buildings for which titles are yet to be registered in the name of the Group.

*** Write down of certain items identified for disposal to their expected realisable value.

Includes Rs. 448.89 lacs (previous year Rs. 448.89 lacs) in respect of lands, titles for which are yet to be registered in the name of the Group.

1. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of capital advances) Rs. 68.71 lacs (previous year Rs. 725.77 lacs).

2. Additions for the year includes exchange loss (net) of Rs. 53.00 lacs (previous year- net of exchange gain (net) of Rs. 128.85 lacs) on account of fluctuations in the rate of exchange including increase/decrease in rupee liability of long term foreign currency loan.

3. Additions for the year include Rs. 31.12 lacs (previous year Rs. 92.68 lacs) towards the amount of borrowing costs capitalised.

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
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SCHEDULE 5 - Investments

a) LONG TERM (At cost)

TRADE INVESTMENT - QUOTED		
MOI Engineering Limited		
3,500 Equity shares of Rs. 10 each fully paid up	0.25	0.25
OTHER INVESTMENTS - QUOTED		
Unit Trust of India		
3,83,900 6.75% Tax Free US64 Bonds of Rs. 100 each	383.90	383.90
Nestle India Limited		
93 Equity shares of Rs. 10 each fully paid up	0.07	0.07
Smithkline Beecham Consumer Healthcare Limited		
320 Equity shares of Rs. 10 each fully paid up	0.38	0.38
GTC Industries Limited		
100 Equity shares of Rs. 10 each fully paid up	0.01	0.01
VST Industries Limited		
100 Equity shares of Rs. 10 each fully paid up	0.11	0.11
Hindustan Lever Limited		
290 Equity shares of Re. 1 each fully paid up	0.07	0.07
HDFC Bank Limited		
15,000 (Previous year 21,000) Equity shares of Rs. 10 each fully paid up	1.50	2.10
Oriental Bank of Commerce		
2,000 Equity shares of Rs. 10 each fully paid up	1.20	1.20
Bank of Baroda		
22,588 (Previous year 100) Equity shares of Rs. 10 each fully paid up	50.50	0.85
State Bank of Travancore		
1,405 Equity shares of Rs. 100 each fully paid up	8.43	8.43
Bank of India		
10,000 (Previous year 8000) Equity shares of Rs. 10 each fully paid up	13.14	3.60
Corporation Bank		
7,000 (Previous year 400) Equity shares of Rs. 10 each fully paid up	26.88	0.32
Punjab Communications Limited		
3,700 Equity shares of Rs. 10 each fully paid up	9.25	9.25
Less: Provision for diminution in the value of investment	7.75	7.80
	1.50	1.45
Narang Industries Limited		
40,000 Equity shares of Rs. 10 each fully paid up	4.00	4.00
Circassia Pacific Finance Limited		
1,00,000 Equity shares of Rs. 10 each fully paid up	10.00	10.00
Less: Provision for diminution in the value of investment	2.25	2.25
	7.75	7.75
Biocon Limited		
200 Equity shares of Rs. 5 each fully paid up	0.63	0.63
Indraprastha Gas Limited		
Nil (Previous year 600) Equity shares of Rs. 10 each fully paid up	-	0.29
Maruti Udyog Limited		
950 Equity shares of Rs. 5 each fully paid up	1.19	1.19
Patni Computer Systems Limited		
Nil (Previous year 350) Equity shares of Rs. 2 each fully paid up	-	0.80

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 5 - Investments (continued)		
Power Trading Corporation Limited Nil (Previous year 1,800) Equity shares of Rs. 10 each fully paid up	–	0.29
Bharti Shipyard Limited Nil (Previous year 155) Equity shares of Rs. 10 each fully paid up	–	0.10
Deccan Chronicle Holding Limited Nil (Previous year 832) Equity shares of Rs. 10 each fully paid up	–	1.35
Dena Bank 9,104 Equity shares of Rs. 10 each fully paid up	2.45	2.45
Emami Limited 2,200 Equity shares of Rs. 2 each fully paid up	1.54	1.54
Indoco Remedies Limited Nil (Previous year 82) Equity shares of Rs. 10 each fully paid up	–	0.20
Jet Airways Limited Nil (Previous year 321) Equity shares of Rs. 10 each fully paid up	–	3.54
NTPC Limited 8,547 (Previous year 8,047) Equity shares of Rs. 10 each fully paid up	8.28	5.93
Punjab National Bank 376 Equity shares of Rs. 10 each fully paid up	1.46	1.46
Reliance Industries Limited 1,510 (Previous year 10) Equity shares of Rs. 10 each fully paid up	13.53	0.05
Steel Authority of India Limited Nil (Previous year 8,000) Equity shares of Rs. 10 each fully paid up	–	4.72
Tata Consultancy Services Limited 165 Equity shares of Re. 1 each fully paid up	1.41	1.41
UTV Software Communication Limited Nil (Previous year 347) Equity shares of Rs. 10 each fully paid up	–	0.45
Glenmark Pharmaceutical Limited 2,000 (Previous year 4,500) Equity shares of Rs. 2 each fully paid up	6.10	13.73
ONGC Limited Nil (Previous year 948) Equity shares of Rs. 10 each fully paid up	–	7.11
Allahabad Bank 4,264 Equity Shares of Rs. 10 each fully paid up	3.50	–
ABG Shipyard Limited 111 Equity Shares of Rs. 10 each fully paid up	0.21	–
AIA Engineering Limited 80 Equity Shares of Rs. 10 each fully paid up	0.25	–
Ashok Leyland Limited 7,500 Equity Shares of Re. 1 each fully paid up	2.05	–
HT Media Limited 2,604 Equity Shares of Rs. 10 each fully paid up	13.80	–
Andhra Bank 6,986 Equity Shares of Rs. 10 each fully paid up	6.29	–
Bombay Rayon Fashions Limited 1,400 Equity Shares of Rs. 10 each fully paid up	0.98	–

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
Schedule 5 - Investments (continued)		
ICICI Bank Limited 2,000 Equity Shares of Rs. 10 each fully paid up	10.50	–
Zee Telefilms Limited 500 Equity Shares of Re. 1 each fully paid up	0.82	–
Prithvi Information Solutions Limited 336 Equity Shares of Rs. 10 each fully paid up	0.90	–
Punj Lloyd Limited 69 Equity Shares of Rs. 10 each fully paid up	0.48	–
Triveni Engineering & Industries Limited 31,575 Equity Shares of Re. 1 each fully paid up	15.15	–
Suzlon Energy Limited 487 Equity Shares of Rs. 10 each fully paid up	2.47	–
Talbro Automotive Components Limited 1,551 Equity Shares of Rs. 10 each fully paid up	1.59	–
Infrastructure Development Finance Company Limited 2,346 Equity Shares of Rs. 10 each fully paid up	0.81	–
Shopper's Stop Limited 161 Equity Shares of Rs. 10 each fully paid up	0.38	–
Chennai Petroleum Corporation Limited 400 Equity Shares of Rs. 10 each fully paid up	0.96	–
Dabur India Limited 2,000 Equity Shares of Re. 1 each fully paid up	2.11	–
GIC Housing & Finance Company Limited 2,000 Equity Shares of Rs. 10 each fully paid up	0.84	–
Gitanjali Gems Limited 353 Equity Shares of Rs. 10 each fully paid up	0.69	–
Gujarat Alkalies & Chemicals Limited 1,500 Equity Shares of Rs. 10 each fully paid up	1.99	–
Gujarat State Petronet Limited 676 Equity Shares of Rs. 10 each fully paid up	0.18	–
GVK Power and Infrastructure Limited 93 Equity Shares of Rs. 10 each fully paid up	0.29	–
HCL Technologies Limited 200 Equity Shares of Rs. 2 each fully paid up	1.05	–
IFCI Limited 25,000 Equity Shares of Rs. 10 each fully paid up	4.26	–
IL&FS Investsmart Limited 76 Equity Shares of Rs. 10 each fully paid up	0.10	–
Jaiprakash Hydro Power Limited 9,800 Equity Shares of Rs. 10 each fully paid up	3.14	–
SRF Limited 2,500 Equity Shares of Rs. 10 each fully paid up	7.28	–
State Bank of India 1,000 Equity Shares of Rs. 10 each fully paid up	8.76	–

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005	
SCHEDULE 5 - Investments (continued)			
Tata Chemicals Limited 1,500 Equity Shares of Rs. 10 each fully paid up	3.74	-	
Tulip IT Services Limited 174 Equity Shares of Rs. 10 each fully paid up	0.21	-	
Union Bank of India 913 Equity Shares of Rs. 10 each fully paid up	1.00	-	
Usha Martin Limited 1500 Equity Shares of Rs. 5 each fully paid up	2.76	-	
Yes Bank Limited 2500 Equity Shares of Rs. 10 each fully paid up	2.03	-	
Inox Leisure Limited 90 Equity Shares of Rs. 10 each fully paid up	0.11	-	
Reliance Capital Ventures Limited 1510 Equity Shares of Rs. 10 each fully paid up	-*	-	
Reliance Communication Ventures Limited 1510 Equity Shares of Rs. 5 each fully paid up	-*	-	
Reliance Energy Ventures Limited 1510 Equity Shares of Rs. 10 each fully paid up	-*	-	
Reliance Natural Resources Limited 1510 Equity Shares of Rs. 5 each fully paid up	-*	-	
*Acquired without cost under the scheme of demerger of Reliance Industries Limited			
OTHER INVESTMENTS - UNQUOTED			
Associate: Success Principles India Limited 1,99,673 Equity shares of Rs. 10 each fully paid up Cost of acquisition (net of capital reserve of Rs. 1.67 lacs) Add: Group's share of profit upto 31.03.2006	19.97 30.65	19.97 50.62	48.34
Others: Modi Entertainers Networks Private Limited 1,000 Equity shares of Rs. 10 each fully paid up	0.10	0.10	
Indo Euro Investment Company Limited 36,750 Equity shares of Rs. 100 each fully paid up	36.78	36.78	
Bharti Agritech Private Limited 9,800 Equity shares of Rs. 100 each fully paid up	9.80	9.80	
Modicare Limited 7,20,000 Equity shares of Rs. 10 each fully paid up Less: Provision for diminution in the value of investment	72.00 36.00	72.00 36.00	72.00
Sundaram Mutual Fund Nil (Previous year 1,00,000) Units of Sundaram Growth Fund - Appreciation of Rs. 10 each 38,53,757 (Previous year 38,49,081) Units of Sundaram Bond Saver - Appreciation of Rs. 10 each 23,01,943 Units of Sundaram Bond Saver - Bonus (Bonus Units) of Rs. 10 each 10,00,000 Units of Sundaram Fixed Term Plan Series 1 Feb '06 (100 days) - Growth Plan of Rs. 10 each	- 597.31 236.84 100.00	10.00 596.31 236.84 -	
Franklin Templeton Mutual Fund Nil (Previous year 7,68,420) Units of Templeton India Growth Fund - Dividend of Rs. 10 each 25,59,040 Units of Templeton India Income Fund - Growth of Rs. 10 each 20,00,000 Units of Templeton Monthly Income Plan-Half Yearly Dividend of Rs. 10 each 35,84,037 Units of Templeton India Government Securities Fund - Growth Plan of Rs. 10 each 14,33,918 Units of Templeton India Income Builder Account Plan A - Growth of Rs. 10 each	- 353.50 198.18 597.23 300.00	103.45 353.50 198.18 597.23 300.00	

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005	
SCHEDULE 5 - Investments (continued)			
Prudential ICICI Mutual Fund 103,08,923 Units of Prudential ICICI Income Plan-Growth of Rs. 10 each 25,56,402 Units of Prudential ICICI Gilt Fund Investment Plan - Growth of Rs. 10 each 45,38,687 Units of Prudential ICICI Flexible Income Plan - Growth of Rs. 10 each 100,00,000 Units of Prudential ICICI FMP- Growth Yearly XII Institutional of Rs. 10 each 50,00,000 Units of Prudential ICICI FMP Plan - Institutional Cumulative -XXVIII of Rs. 10 each	1455.72 398.12 500.00 1000.00 500.00	1455.72 398.12 500.00 1000.00 -	
Birla Mutual Fund 42,47,005 Units of Birla Income Plus Plan B - Growth of Rs. 10 each 14,12,030 Units of Birla Gilt Plus P F Plan - Growth of Rs. 10 each 12,46,416 Units of Birla Gilt Plus Regular Plan - Growth of Rs. 10 each 100,00,000 Units of Birla Fixed Term Plan Series A-Growth of Rs. 10 each 17,68,113 Units of Birla MIP Plan C - Growth of Rs. 10 each 50,00,000 Units of Birla FTP Series H - Growth of Rs. 10 each 26,49,562(Previous year 24,86,877) Units of Birla Sun Life (formerly Alliance Capital) Monthly Income- Quarterly Dividend - Reinvestment of Rs. 10 each 2,99,022 (Previous year 3,42,483) Units of Birla Cash Institutional Plan-Growth of Rs. 10 each	757.68 199.02 199.37 1000.00 277.78 500.00 299.44 56.00	757.68 199.02 199.37 1000.00 277.78 - 282.26 60.00	
Kotak Mahindra Mutual Fund 21,54,634 Units of Kotak Gilt (Investment Regular) - Growth of Rs. 10 each 27,52,305 Units of Kotak Bond Regular - Growth of Rs. 10 each	362.87 408.84	362.87 408.84	
DSP Merrill Lynch Mutual Fund 39,55,693 Units of DSP Merrill Lynch Bond Fund Retail - Growth of Rs. 10 each	595.82	595.82	
SBI Mutual Fund 34,44,028 Units of Magnum Income Fund - Growth Plan of Rs. 10 each 22,92,313 Units of Magnum Monthly Income Plan-Growth Option of Rs. 10 each	397.87 316.21	397.87 316.21	
Standard Chartered Mutual Fund 136,53,406 Units of GSSG GSSIF - Investment Plan - Growth Option of Rs. 10 each 150,00,000 Units of Grindlays Fixed Maturity 7th Plan -B - Growth of Rs. 10 each	1641.90 1500.00	1641.90 1500.00	
HDFC Mutual Fund 40,56,978 Units of HDFC Income Fund - Growth of Rs. 10 each 16,58,375 Units of HDFC High Interest Fund - Growth Plan of Rs. 10 each 5,91,900 Units of HDFC Cash Management Fund - Saving Plan - weekly Dividend - Reinvestment of Rs. 10 each	471.19 254.87 85.45	471.19 254.87 83.82	
Chola Mutual Fund 5,88,235 Units of Chola Triple Ace - Regular - Cumulative of Rs. 10 each 7,85,989 Units of Chola Triple Ace- Regular - Bonus- Bonus Units of Rs. 10 each	99.38 88.89	99.38 88.89	
HSBC Mutual Fund 50,00,000 Units of HSBC Fixed Term Series 13 Institutional Growth of Rs. 10 each	500.00	-	
Principal Mutual Fund 14,01,384 Units of Principal Income Fund-Growth Plan of Rs. 10 each 20,00,000 Units of Principal Deposit Fund (FMP-6) 371 Days Plan Mar 05- Growth Rs. 10 each	200.00 200.00	200.00 200.00	
UTI Mutual Fund 13,93,338 Units of UTI Bond Advantage Fund Growth Plan of Rs. 10 each 50,00,000 Units of UTI Fixed Maturity Plan - (YFM P/02/05) Growth Plan of Rs. 10 each	205.54 500.00	205.54 500.00	
Reliance Mutual Fund 14,11,423 Units of RMTF-Retail Plan - Growth Plan - Bonus Option of Rs. 10 each 50,00,000 Units of Reliance Fixed Maturity Fund - Annual Plan -Series1- Growth Option of Rs. 10 each 9,72,195 Units of RIF Retail Plan - Growth of Rs. 10 each 50,000 Units of Reliance Equity Opportunities Fund-Growth of Rs. 10 each Nil (Previous year 1,28,107) Units of Reliance Income-Fund Growth Plan of Rs. 10 each	142.86 500.00 100.00 5.00 -	142.86 500.00 - 5.00 25.00	

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 5 - Investments (continued)		
Deutsche Mutual Fund		
50,00,000 Units of Deutsche Insta Fixed Term Fund - Growth Option of Rs. 10 each	500.00	500.00
1,54,924 (Previous year 6,50,300) Units of Deutsche Insta Cash Plus Fund	15.74	65.97
- Regular Dividend Plan of Rs. 10 each		
84,615 (Previous year 1,95,351) Units of Deutsche Short Maturity Mutual Fund		
- Growth Plan of Rs. 10 each	8.90	20.50
TATA Mutual Fund		
50,00,000 Units of TATA Fixed Horizon Fund Series 1- Plan A (371 days) - Growth of Rs. 10 each	500.00	500.00
100,00,000 Units of TATA Fixed Horizon Fund Series 3 - Scheme B (6 Months) - Growth of Rs. 10 each	1000.00	-
60,252 Units of TIFG Tata Income Fund - Appreciation of Rs. 10 each	12.50	12.50
ING Vysya Mutual Fund		
19,69,066 Units of ING Vysya Select Debt Fund-Growth of Rs. 10 each	200.00	200.00
Government Securities (lodged as security with Government Authorities)	0.36	0.36
b) CURRENT (At lower of cost and fair value)		
OTHER INVESTMENT - UNQUOTED		
Principal Mutual Fund		
Nil (Previous year 1,37,90,424) Units of Principal Cash Management Fund Liquid	-	1420.00
Option Institutional Premium Plan-Growth of Rs. 10 each		
	<u>21111.64</u>	<u>19873.60</u>
Aggregate amount of quoted investments	<u>637.96</u>	<u>461.73</u>
Aggregate amount of unquoted investments		
- Units of Mutual Funds	20340.02	19244.49
- Others	133.66	167.38
	<u>20473.68</u>	<u>19411.87</u>
Market value of quoted investments	621.24	627.45
Net asset value/repurchase price of units of Mutual Funds	24512.54	23166.11

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 6 - Inventories		
At cost or under:		
Stores and spare parts	775.19	619.85
At lower of cost and net realisable value:		
Raw and packing materials	8752.88	8414.79
Work-in-process	102.03	89.66
Finished goods - Cigarettes	4520.00	2860.04
- Cigars	119.37	56.76
Other goods	602.27	545.32
Real estate*	405.69	405.69
	<u>15277.43</u>	<u>12992.11</u>
*Includes land at revalued cost		
SCHEDULE 7- Sundry debtors		
CONSIDERED GOOD		
Over six months - unsecured	1.17	0.45
Others - secured	3.43	22.91
- unsecured	1155.06	227.83
CONSIDERED DOUBTFUL		
Over six months - unsecured	74.16	104.58
Others - unsecured	4.41	-
	<u>1238.23</u>	<u>355.77</u>
Less: Provision for doubtful debts	<u>78.57</u>	<u>104.58</u>
	<u>1159.66</u>	<u>251.19</u>
SCHEDULE 8 - Cash and bank balances		
Cash on hand	16.68	17.08
Cheques on hand	120.10	106.45
With scheduled banks: On current accounts	511.21	391.16
: On margin money accounts	36.72	31.57
: On fixed deposit accounts**	0.45	0.45
	<u>685.16</u>	<u>546.71</u>
** Lodged as security with Government Authorities		
SCHEDULE 9 - Loans and advances		
Unsecured, considered good, unless otherwise stated:		
Advances recoverable in cash or in kind or for value to be received*	1915.51	1928.80
Considered doubtful	64.87	2797.51
	<u>1980.38</u>	<u>4726.31</u>
Less: Provision for doubtful advances	<u>64.87</u>	<u>2797.51</u>
	<u>1915.51</u>	<u>1928.80</u>
Inter corporate deposits	825.00	1025.00
With excise and customs on current/cenvat accounts	1149.33	1299.60
Income-tax recoverable	917.21	542.24
	<u>4807.05</u>	<u>4795.64</u>
* Includes:		
i) Rs. 0.37 lac (previous year Rs. 1.46 lacs) due from officer/directors of the Company. Maximum amount due during the year Rs. 2.81 lacs (previous year Rs. 1.46 lacs).		
ii) Rs. 0.05 lac (previous year Rs. 0.09 lac) due from Modipon Ltd., a company under the same management. Maximum amount due during the year Rs. 0.11 lac (previous year Rs. 0.53 lac).		
iii) Rs. 0.03 lac (previous year Rs. 0.03 lac) due from a private company in which some of the directors of the Company are directors.		

Rupees in lacs

	As at 31.3.2006	As at 31.3.2005
SCHEDULE 10 - Current liabilities		
Sundry creditors #		
Dues of small scale industrial undertakings	799.96	318.82
Dues of other than small scale industrial undertakings	9589.11	12250.28
Interest accrued but not due on loans, deposits and deferred credits	42.70	60.64
	<u>10431.77</u>	<u>12629.74</u>

Sundry creditors do not include any amounts outstanding as on March 31, 2006 which are required to be credited to the Investor Education and Protection Fund.

SCHEDULE 11 - Provisions

Proposed dividend	2339.72	2287.73
Corporate dividend tax	328.15	320.85
Taxation (net of payments)	746.53	726.87
Provision for encashable leave salary	1500.35	1134.65
	<u>4914.75</u>	<u>4470.10</u>

SCHEDULE 12 - Deferred taxation

Deferred tax liabilities		
- Accelerated depreciation	1115.59	1056.81
- Capital gains	63.80	52.58
	<u>1179.39</u>	<u>1109.39</u>
Deferred tax assets		
- Accrued expenses deductible on payment	656.16	1644.03
- Voluntary retirement scheme	7.49	34.44
- Provision for doubtful debts/advances	48.28	976.84
	<u>711.93</u>	<u>2655.31</u>
Deferred tax liabilities/(assets) - net	<u>467.46</u>	<u>(1545.92)</u>

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
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SCHEDULE 13 - Other income

Rent and hire charges (gross)	90.91	98.77
Interest (gross) from debts, deposits, loans, etc.	235.64	123.34
Income (gross) from other long term investments:		
- Dividends	36.03	57.27
- Interest	25.91	58.29
Profit on redemption/sale of other long term investments	261.91	427.75
Profit on sale of other current investments	273.10	236.23
Liabilities no longer required, written back	-	1014.52
Export incentives	164.30	185.03
Sundries	471.33	438.83
	<u>1559.13</u>	<u>2640.03</u>

Tax deducted at source:		
Interest income	18.77	25.45
Rent and hire charges	16.72	14.37
Sundries	0.28	1.00

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
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SCHEDULE 14 - Raw and packing materials, manufactured and other goods

Raw and packing materials consumed	16741.55	15807.95
Purchases for resale (including transferred from raw and packing materials)	7426.06	7571.98

Expenditure incurred on real estate stock development	-	9.29
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Decrease/(Increase) in work-in-process, finished goods and other goods

Opening stock:

- Work-in-process	89.66	79.61
- Cigarettes	2860.04	3219.85
- Cigars	56.76	46.12
- Other goods	545.32	325.56
- Real estate	405.69	396.40
	<u>3957.47</u>	<u>4067.54</u>

Closing stock:

- Work-in-process	102.03	89.66
- Cigarettes	4520.00	2860.04
- Cigars	119.37	56.76
- Other goods	602.27	545.32
- Real estate	405.69	405.69
	<u>5749.36</u>	<u>3957.47</u>
	(1,791.89)	110.07

22375.72

23499.29

GODFREY PHILLIPS
—INDIA LIMITED—

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
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SCHEDULE 15 - Manufacturing and other expenses

Salaries, wages and bonus	5444.68	5150.08
Contribution to provident and other funds (including administrative charges)	382.81	330.29
Workmen and staff welfare expenses	678.00	594.73
Contribution to gratuity and superannuation fund	561.78	570.36
Consumption of stores and spare parts	61.92	40.17
Power and fuel	914.28	706.05
Repairs and maintenance - Buildings	194.67	200.58
- Machinery	560.18	507.54
- Others	252.40	219.04
Rent	583.35	516.23
Rates and taxes	3686.84	6463.84
Insurance	312.37	244.19
Freight and cartage	869.37	773.15
Legal and professional expenses	1481.95	1394.82
Auditors' remuneration	69.18	69.19
Interest - Fixed loans	219.41	42.83
- Others	58.89	533.49
Cash discount	48.37	45.82
Commission paid to other than sole selling agents	129.15	89.84
Advertising and sales promotion	11051.26	9896.51
Selling and distribution expenses	1714.26	1765.62
Travelling and conveyance	1612.04	1430.29
Donations	65.30	194.71
Bad debts and advances written off	0.67	7.74
Provision for doubtful debts and advances	6.90	462.01
Fixed assets written off/written down	103.43	36.19
Loss on sale of fixed assets	37.88	45.04
Technical services fee and royalty	623.93	639.83
Provision for diminution in the value of investments	35.95	0.45
Miscellaneous expenses	3264.09	2582.29
	<u>35025.31</u>	<u>35552.92</u>

- (a) Consumption of stores and spare parts has been computed after deducting the amount of spare parts charged to repairs and maintenance - machinery 442.93 373.71
- (b) Insurance has been computed after deducting the amount for transit insurance charged to raw and packing materials, stores, etc. 13.41 14.64

SCHEDULE 16 Notes to the consolidated accounts

1. BASIS OF CONSOLIDATION

The Consolidated Financial Statements have been prepared in accordance with Accounting Standard 21 (AS 21)-"Consolidated Financial Statements" and Accounting Standard 23 (AS 23) "Accounting for Investments in Associates in Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India

- a) The subsidiaries (which along with Godfrey Phillips India Limited, the Parent, constitute the Group) considered in the preparation of these consolidated financial statements are:

Name	Country of incorporation	Percentage of voting power as at	
		March 31, 2006	March 31, 2005
International Tobacco Company Limited	India	100	100
Chase Investments Limited	India	100	100
City Leasing and Finance Company Limited	India	100	100
Manhattan Credits and Finance Limited	India	100	100
Kashyap Metal and Allied Industries Limited	India	66.23*	66.23*
Unique Space Developers Limited	India	66.67*	66.67*
* Held through other subsidiaries			

- b) The Group's associate is:

Success Principles India Limited	India	48.89	48.89
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These Consolidated Financial Statements are based, in so far as they relate to amounts included in respect of subsidiaries and an associate, on the audited financial statements prepared for consolidation in accordance with the requirements of AS 21 and AS 23 by each of the aforesaid entities.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards.

- i) Fixed assets and depreciation

Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and include interest on loans attributable to the acquisition of assets upto the date of their commissioning.

Value of goodwill and patents and trade marks is not amortized because, in view of the management, there is no diminution in their value. No amortization is done in respect of leasehold land in view of the leases being perpetual.

Depreciation in the accounts is charged on the straight line method at the rates prescribed under the Companies Act, 1956 and is calculated on a full year basis on additions during the year and no depreciation is provided on assets deleted during the year. Extra shift depreciation is computed in full on a concern basis and not prorated to the number of days of shift working. Assets, other than items costing upto Rs. 5000 each, are depreciated upto 95% of their value and 5% residual value is retained in the books.

The depreciation rates which are different from the principal rates specified in Schedule XIV of the Companies Act, 1956 are as follows:-

Items of machinery and equipment costing upto Rs. 5,000 each acquired upto December 16, 1993 95%

Assets, other than data processing equipment, acquired upto December 31, 1987 and data processing equipment acquired upto December 31, 1986 SLM equivalent of rates applicable under the Income-tax Rules, 1962 at the time of acquisition of such assets.

- ii) Investments

Long term investments, other than in associates, are stated at cost. Provision is made for permanent diminution in the value of long term investments, where applicable. Investment in the associate is accounted for using the equity method. Current investments are stated at cost or fair value, whichever is lower.

- iii) Inventories

Inventories are valued at cost or net realisable value, whichever is lower except stores and spare parts which are valued at cost or under and real estate which is valued at revalued cost of land and construction thereon at cost. The cost of raw materials, stores and spares and other goods is determined on monthly weighted average cost basis. The cost of finished goods and work-in-process is determined on standard absorption cost basis which approximates

actual costs. Absorption cost comprises raw materials cost, direct wages, appropriate share of production overheads and applicable excise duty paid/payable thereon

iv) Revenue recognition

Sale of goods is recognised at the point of despatch of goods to customers. Sales are inclusive of excise duty, where applicable but are exclusive of sales tax. Income from investments is recognised on an accrual basis.

v) Retirement benefits

The Group has various schemes of retirement benefits such as provident fund, superannuation fund and gratuity fund, duly recognised by the Income-tax authorities. The funds are administered through trustees and the contributions are charged against the revenue every year. Accrued liability for gratuity and leave salary encashable on retirement are determined on the basis of actuarial valuation at the end of the financial year.

vi) Income-tax

Provision for income-tax is based on the assessable profits computed in accordance with the provisions of the Income-tax Act, 1961. Deferred tax is recognised, subject to the consideration of prudence, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are recognised on unabsorbed depreciation and carry forward of losses based on virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

vii) Proposed dividends

Dividends proposed by the directors as appropriation of profits are provided for in the books of account, pending approval of shareholders at the annual general meeting.

viii) Research and development expenditure

Research and development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred.

ix) Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rates prevailing at the time of transactions. Gains/losses on settlement of the transactions are taken to the relevant revenue heads in the profit and loss account except where the foreign currency liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets. Other monetary items are translated at the year end rates and the gains/losses are taken to the relevant revenue heads in the profit and loss account.

The difference between the forward rate and the exchange rate at the date of the forward contract transaction is recognised as income or expense over the life of the contract in the profit and loss account. The exchange difference on such contracts i.e.

difference between the exchange rate at the reporting /settlement date and the exchange rate on the date of inception of the contract/the last reporting date, is recognised as income or expense for the period except where the foreign exchange liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets.

x) Investment subsidiaries

Income recognition, assets classification and provisioning are done in accordance with the prudential norms/guidelines issued by the Reserve Bank of India from time to time for Non-Banking Financial Companies

	Rupees in lacs	
	For the year ended 31.3.2006	For the year ended 31.03.2005

3. REMUNERATION OF DIRECTORS

Included in Schedule 15 are:

Salaries*	81.18	78.54
Monetary value of benefits	29.03	15.15
Commission	56.80	53.50
Sitting fees	9.30	10.46
	<u>176.31</u>	<u>157.65</u>

* excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

4. EXPENDITURE ON SCIENTIFIC RESEARCH AND DEVELOPMENT

Revenue expenditure	310.75	195.59
Capital expenditure	305.97	107.39

5. AUDITORS' REMUNERATION*

As auditors		
Audit fee	31.83	27.49
Out of pocket expenses	3.20	2.55
In other capacity		
For limited review of unaudited financial results	18.75	20.01
For corporate governance, consolidated financial statements and other certification work	2.13	2.15
For tax audit	6.98	6.15
For management consultancy	2.00	5.89
For provident fund audit	-	1.01
For miscellaneous certificates	4.29	3.87
Out of pocket expenses	-	0.07
	<u>69.18</u>	<u>69.19</u>

* Net of service tax where cenvat credit is available

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.03.2005
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6. CONTINGENT LIABILITIES NOT PROVIDED FOR

a). Demands from excise, sales tax and other authorities disputed by the Group	781.12	294.27
b). Claims against the Group not acknowledged as debts	1.37	3.26

7. The Group and its contract manufacturer have received various show cause notices from Excise Authorities asking them to explain why certain amounts mentioned in these notices should not be paid. As these notices are in the nature of explanations required, the Group does not consider these to constitute a liability of any kind.

8. The Group has taken on lease plant and machinery, motor vehicles and office equipments of an aggregate cost of Rs. Nil (previous year Rs. 212.21 lacs) with future obligations by way of lease rentals amounting to Rs. Nil (previous year Rs. 4.33 lacs). Lease rentals charged to the profit and loss account during the year is Rs. 2.61 lacs (previous year Rs. 23.55 lacs).

The Group has entered into various operating lease agreements for premises (residential, offices, godowns, etc.). These lease arrangements are cancellable in nature and range between two to three years and are usually renewable by mutual consent on mutually agreeable terms. The aggregate rentals paid under such agreements have been charged as rent in Schedule 15.

The Group has let out and sub-let part of its owned and rented office premises under lease arrangements which are cancellable in nature but renewable on mutually agreeable terms. The rent and hire charges in respect thereof have been accrued as income in Schedule 13.

9. Exchange loss included in the profit and loss account for the year is Rs. 6.00 lacs (previous year Rs. 19.28 lacs).

	For the year ended 31.3.2006	For the year ended 31.03.2005
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10. Earnings per share has been computed as under:

(a) Net profit as per consolidated profit and loss account (Rs. lacs)	5979.15	6515.39
(b) Weighted average number of equity shares outstanding	1,03,98,784	1,03,98,784
(c) Basic and diluted earnings per share (Rupees) (face value of share-Rs. 10 each)	57.50	62.66

11. Related party disclosures under Accounting Standard 18

(A) Names of related parties and nature of related party relationships:

(a) Associates:
Philip Morris International Finance Corporation, of which Godfrey Phillips India Limited is an associate.

(b) Key management personnel:

Mr. K.K.Modi	President and Managing Director
Mr. Lalit Kumar Modi	Executive Director
Mr. Samir Kumar Modi	Executive Director
Mr. S.V.Shanbhag	Whole-time Director

(c) Enterprises over which key management personnel and their relatives are able to exercise significant influence:

Modi Entertainment Limited
Modicare Limited
Modern Homecare Products Limited
K.K.Modi Investment & Financial Services Private Limited
Beacon Travels Private Limited
Modipon Limited
Assam Cigarette Company Private Limited
R.C. Tobacco Private Limited
HMA Udyog Private Limited
Kaushambi Investment & Leasing Company Private Limited
Bina Fashion N Food Private Limited
Modicare Foundation
Modi Apollo International Group Private Limited
Priyal Hitay Nidhi
Colorbar Cosmetics Private Limited
Gujarmal Modi Science Foundation
Ananda Embroidery Industries Private Limited

(B) Disclosure of transactions between the Group and related parties and the status of outstanding balances as at the year end:

Rupees in lacs

Nature of transactions	Associates		Key management personnel		Enterprises over which significant influence exists	
	2006	2005	2006	2005	2006	2005
Sale of goods	-	-	-	-	10.83	38.92
Purchase of goods/services	-	-	-	-	6724.78#	424.39#
Purchase of fixed assets	-	-	-	-	0.97	1.48
Deposits received back	-	-	-	-	-	90.00
Deposits refunded	-	-	-	-	-	2.82
Interest income	-	-	-	-	-	4.87
Rent and hire charges received	-	-	-	0.06	76.77	76.14
Rent and hire charges paid	-	-	-	-	19.35	21.53
Payments for employees on deputation	-	-	-	-	72.90	64.84
Receipts for employees on deputation	-	-	-	-	-	13.56
Donations given	-	-	-	-	28.50	111.25
Expenses recovered	-	-	0.54	0.53	1.76	6.88
Expenses reimbursed	-	-	-	-	4.47	7.86
Dividend payment	822.07	709.97	-	-	-	-
Managerial remuneration **	-	-	167.01	147.19	-	-
Amounts written back	-	-	-	-	-	462.55
Provision made for doubtful advances	-	-	-	-	-	462.55
Provision for doubtful advances written back	-	-	-	-	2732.64@	-
Balance outstanding as at the year end						
- Loans and advances	-	-	0.33	1.40	6.74	2769.73*
- Sundry creditors	-	-	0.24	2.83	733.67	10.73

* includes Rs. Nil (previous year Rs. 2732.64 lacs) provided for as doubtful advances.

includes Rs. 507.03 lacs (previous year Rs. 391.96 lacs) from Beacon Travels Private Ltd. Current year figure includes sums of Rs. 2489.76 lacs relating to Assam Cigarettes Company Pvt. Ltd. and Rs. 3682.02 lacs to R C Tobacco Pvt. Ltd. towards additional consideration for cigarettes purchased in an earlier year.

excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

@ relates to Assam Cigarette Company Pvt. Ltd. and R C Tobacco Pvt. Ltd.

12. Segment reporting disclosures under Accounting Standard 17

(A) Business segments:

Based on the guiding principles given in Accounting Standard-17 "Segment Reporting" issued by the Institute of Chartered Accountants of India, the Group's primary business segments are (a) Cigarette and tobacco products; (b) Tea and other retail products and (c) Others (investment and real estate business activities of the subsidiaries)

(B) Geographical segments:

Since the Group's activities/operations are primarily within the country and considering the nature of products it deals in, the risks and returns are same and as such there is only one geographical segment.

Financial information about the primary business segments is presented in the table below:

Rupees in lacs

		Cigarette and tobacco products	Tea and other retail products	Others	Total	Cigarette and tobacco products	Tea and other retail products	Others	Total
		For the year ended March 31, 2006				For the year ended March 31, 2005			
1.	Segment revenue - External sales (gross)	138323.07	4863.65	-	143186.72	125296.72	4233.66	-	129530.38
	- Less: Excise duty	74770.57	-	-	74770.57	61274.16	-	-	61274.16
	- Net sales	63552.50	4863.65	-	68416.15	64022.56	4233.66	-	68256.22
	- Other income	677.56	51.75	88.46	817.77	1673.92	62.16	84.38	1820.46
	- Total	64230.06	4915.40	88.46	69233.92	65696.48	4295.82	84.38	70076.68
	- Unallocable income				741.36				819.57
	Total revenue				69975.28				70896.25
2.	Segment result	10042.04	(461.71)	14.87	9595.20	9716.16	(104.39)	77.39	9689.16
	- Unallocable income net of unallocable expenses				661.06				609.86
	Profit before interest and taxation				10256.26				10299.02
	- Interest expenses				(275.91)				(58.10)
	- Provision for taxation				(4004.74)				(3727.61)
	Profit after taxation before share of results of an associate and minority interests				5975.61				6513.31
	Share of net profit of an associate				2.28				1.64
	Profit after taxation before minority interests				5977.89				6514.95
3.	Other information	As at March 31, 2006				As at March 31, 2005			
a)	Segment assets	33163.32	1482.67	1745.62	36391.61	30138.20	1264.07	1719.60	33121.87
	- Unallocable assets/investments				23472.21				23502.20
	Total assets				59863.82				56624.07
b)	Segment liabilities	11351.36	391.09	19.10	11761.55	13357.02	212.61	16.92	13586.55
	- Share capital, reserves and minority interests				36610.65				33300.63
	- Unallocable liabilities				11491.62				9736.89
	Total liabilities				59863.82				56624.07
		For the year ended March 31, 2006				For the year ended March 31, 2005			
c)	Capital expenditure including capital work in progress	2326.00	154.38	11.20	2491.58	7421.88	45.45	86.05	7553.38
d)	Depreciation	1961.84	66.02	25.03	2052.89	1800.08	55.69	0.11	1855.88
e)	Non cash expenditure other than depreciation	343.18	114.80	-	457.98	709.02	12.83	-	721.85

Segment accounting policies:

In addition to the significant accounting policies applicable to the business segments as set out in Note 2 in Schedule 16, the accounting policies in relation to segment accounting are as under:

a) Segment revenue and expenses:

Segment revenue and expense only include items directly attributable to the segment. They do not include income from or loss on investments (other than relatable to the business activity of the investment subsidiaries), interest income from inter-corporate deposits and loans given, interest expense (excluding those relatable to segments) and bill discounting charges, donations and provision for taxation (both current and deferred). Since the corporate office of the Parent Company primarily caters to the cigarette and tobacco products segment, its expenses have been considered to be attributable to the same.

Schedule 16 - Notes to the consolidated accounts (continued)

b) Segment assets and liabilities:

All segment assets and liabilities are directly attributable to the segment.

Segment assets include all operating assets used by the segment and consist principally of net fixed assets, inventories, sundry debtors, loans and advances and operating cash and bank balances. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include investments (other than those held by the investment subsidiaries), inter-corporate deposits and loans given, bank balances for unclaimed dividend and fixed deposits interest, real estate stock, share capital, reserves and surplus, loan funds, dividends payable and income-tax (both current and deferred).

Rupees in lacs

	For the year ended 31.3.2006	For the year ended 31.3.2005
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13. Exceptional items comprise of :

a) Provision for luxury taxes on cigarettes and interest thereon reversed pursuant to orders passed by the tax authorities based on the Supreme Court judgement in January, 2005	4303.43	-
b) Additional purchase consideration to small scale cigarette manufacturing units in Assam in view of the Supreme Court judgement in September, 2005	(6171.78)	-
c) Write back of amount provided as doubtful of recovery in earlier years in respect of dues recoverable from manufacturing units referred to in (b) above	2732.65	-
	864.30	-

14. Foreign currency exposures that are not hedged by derivative instruments or otherwise are as follows:

Particulars	As at 31.3.2006		As at 31.3.2005	
	Amount in foreign currency (Lacs)	Amount in Rs. Lacs	Amount in foreign currency (Lacs)	Amount in Rs. Lacs
Loan funds	100.00 USD	4478.00	100.00 USD	4391.00
	-	-	2.03 EURO	115.61
Sundry debtors	22.16 USD	983.81	2.64 USD	114.69
	0.18 EURO	9.49	0.22 EURO	12.14
Current liabilities and provisions	1.49 USD	66.76	3.63 USD	158.84
	1.85 EURO	100.25	2.68 EURO	143.14
	82.83 YEN	34.47	-	-
	0.24 HKD	1.40	-	-
	0.01 GBP	0.37	-	-

17. The figures for the previous year have been re-cast, wherever necessary to conform to the current year's classification.

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

R.N. AGARWAL
Executive Vice President (Finance)

Mumbai: 30th June, 2006

SAMIR KUMAR MODI
Executive Director

S. SERU
Chief Executive (Domestic)

A.R. ANAND
Chief Executive (International)

R. JOSHI
Company Secretary

R.A. SHAH
Chairman

K.K. MODI
President

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

Directors



GODFREY PHILLIPS
—INDIA LIMITED—